NEW MODERN ILLUSTRATIVE BOOKKEEPING

INTRODUCTORY COURSE

RITTENHOUSE

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WILLIAMS & ROGERS SERIES

NEW

MODERN ILLUSTRATIVE BOOKKEEPING

INTRODUCTORY COURSE

BY

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PREFACE

An author is moved to say in his preface many things which cannot well be said in the text proper, — things which occur to him in justification of the methods employed in the development of the subject and its pedagogical presentation. The varying opinions among teachers of bookkeeping as to how the subject should be taught make it particularly advisable for the author of a bookkeeping text to discuss frankly and informally the motives which have actuated him in writing the book, as well as the methods which he has used in an attempt to accomplish his purpose.

The present text, while nominally a revision of the last edition of Modern Illustrative Bookkeeping, is essentially a new book. Those teachers who were acquainted with the earlier text will recognize certain familiar features, but practically the only material which has been retained is certain routine practice units in which the same transactions and names, but not the figures, have been used. The "story" by means of which life and interest are imparted to bookkeeping routine is entirely new, as is the complete presentation of the fundamental principles on which rests the structure of bookkeeping.

The method followed in the early part of the text is one which it is felt will meet with favor among all teachers who believe in the laying of a broad and secure foundation and in the teaching of sound theory. It has not been the intention of the author to present the subject of bookkeeping at the outset through the medium of a complete set of books. While this may perhaps be a more popular method it undoubtedly conflicts with good pedagogy.

An attempt has been made throughout to impress both teacher and student with the idea that bookkeeping is a study of principles as well as of practices; that the mechanics of the subject should not be the major accomplishment; that while classification of transactions by books is important, such classification is distinctly less important than that in accord with sound bookkeeping theory; that certain fundamental principles and processes must be mastered before the student can undertake intelligently anything in the way of bookkeeping which approaches actual practice.

As a means of presenting these principles at the beginning the ledger method is used. The account may be regarded as the unit in bookkeeping; it illustrates in a graphic manner the theory of opposing debits and credits; it directs the attention of the student to one thing at a time; it emphasizes the point that a knowledge of the account is absolutely essential to the intelligent recording of business transactions; it represents the goal in all bookkeeping.

Following this, the books of original entry are considered in logical sequence. First, the journal is taught through the medium of two or three short practice sets; next, the cash book is introduced; then follow the purchases and sales journals. Each book is studied intensively by means of special drills, prior to its use in conjunction with other books.

No excuse is offered for giving particular attention to the theory and practice of journalizing, and for regarding it as the fundamental process in bookkeeping. The mastery of the journal as the primary book of original entry is an invaluable aid in the introduction of other books of original entry. Such books can then be taught as special journals built up on the principle of the equation between debits and credits. The sales book thus becomes the sales

journal; the purchases book, the purchases *journal;* the cash book, the cash receipts and payments *journal.*

Much attention has been given to a classification of accounts which is sound in theory and general in practice; the tendency to group unrelated items in the same account is avoided, separate accounts being provided to take care of each distinct phase of bookkeeping. For example, from the beginning, Purchases and Sales accounts are used instead of a single Merchandise account; Interest on Notes Payable and Interest on Notes Receivable, instead of a single Interest account; Discounts on Purchases and Discounts on Sales, instead of a single Merchandise Discount account; accounts with the more common classes of expenses, instead of a single Expense account. This idea of detailed classification is adopted throughout the book.

The preparation of financial statements is given the attention which this highly valuable part of the work deserves. Such statements are discussed and illustrated fully, while much drill is provided to give the student facility in their preparation as well as an understanding of their form and arrangement. In the same connection, the closing of the ledger is especially studied as the process by which the history of a business, as reflected in the bookkeeping records, is separated into fiscal periods. From the beginning, the closing of the ledger is by means of journal entries. This method is found in prevailing practice and is upheld by the great majority of progressive teachers.

The descriptive matter relating to business documents and banking practice will be welcome to all teachers who look upon bookkeeping as the best possible medium for presenting many phases of business practice and procedure so helpful to every one, regardless of his calling in life. It is felt that this part of the text is unusually comprehensive and well adapted to the point of view of the beginner. The clerical work of writing checks, deposit slips, notes, bills, etc., has been reduced to the minimum without sacrificing any of the benefits to be derived from such work.

Ample supplementary material is provided throughout for drills and reviews. This consists of short, simple sets, drills in journalizing, exercises on the cash book, purchases book and sales book, preparation of profit and loss statements, balance sheets, and closing entries.

Finally, what will probably be most appreciated by the real teacher is the omission of minute and constantly repeated instructions on how to do the work. It is intended that the instruction be given by the teacher rather than by the text; in no sense does the book usurp the rights of the teacher; it is designed to stimulate him to become a vital, active force in his teaching. Furthermore, something is left to the initiative and imagination of the student and he is encouraged to think and plan for himself. The text is a sufficient guide to the intelligent teacher but it is not a substitute for him.

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NEW MODERN ILLUSTRATIVE BOOKKEEPING

INTRODUCTION

The Importance of Bookkeeping. — Bookkeeping has always occupied a prominent place in commercial education. In fact, in most schools doing commercial work, it is the major subject and forms the very backbone of the course of study. In view of the importance attached to the subject, it is essential for teacher and student alike to approach the work with a definite idea of the educational and practical benefits to be derived from such a study.

We should, therefore, ask ourselves the following questions: Why do we teach bookkeeping? Is it entitled to the prominence given to it in commercial education? What has the student a right to expect from instruction in the subject? What motives should inspire us in teaching the subject? What justification have we to offer pupils, parents, principals, and boards of education for claiming a considerable portion of the time of every pupil for bookkeeping instruction and practice?

The Purpose of Bookkeeping. — Bookkeeping serves three distinct purposes:

1 Vocational.
2 Educational or informational.
3 Disciplinary.

As a *vocational* subject, bookkeeping should train directly for positions in the accounting department or for any office work that is largely clerical; it should give a knowledge of business operations and methods, and of bookkeeping technique and principles; and it should develop the ability to record transactions accurately and to draw correct and intelligent conclusions from the books kept. It should, in short, provide the pupil with a tool that will insure his entrance into some business occupation, perhaps in a subordinate capacity at first, but with a training that will enable him to make rapid advancement.

While the direct training afforded for bookkeeping and accounting positions is important, the purpose of the work does not end here. It may safely be assumed that the majority of the young people who complete the commercial course will never become bookkeepers in the sense that they will need a knowledge of double entry bookkeeping. The concerns employing the largest numbers of bookkeepers or clerks have developed a highly organized or sectionalized system of accounting, which results in the assignment of only a single part of the work to each clerk. The work is, therefore, largely routine, and involves little more than skill in arithmetic and penmanship.

This brings us to the second motive which we should have in mind in teaching the subject, viz., the *educational* or *informational* benefits of the course. There can be no question as to the value of much of the information acquired through the study of bookkeeping, such as a knowledge of business documents and of banks and banking; of business practice and procedure; of the different types of business organizations; of the classification of business into wholesale,

retail, manufacturing, commission, etc.; and of the economic background of business organization and management. Surely no subject in the commercial course affords so many opportunities for teaching the fundamentals of business practice and procedure or so effectively establishes the background of business information essential to success in any commercial undertaking.

Finally, the *disciplinary* value of the course consists in the opportunity it affords for the formation of character and of correct business habits. Through the medium of bookkeeping, the student learns the importance of detail; he learns to assume responsibility and to execute orders; and he forms the habit of sustained effort. No better opportunity can be found for cultivating neatness, accuracy, industry, punctuality, concentration, co-operation, initiative, and other habits essential to a successful business career.

INTRODUCTORY COURSE

Bookkeeping Defined. — Every business man realizes the necessity of keeping a diary of the events that take place in his own business. This is necessary in order that he may be informed on any matter which concerns the financial welfare of his business, and further that he may know at certain periods whether his business is being conducted at a profit or at a loss.

The recording of all business and financial events in an orderly and systematic manner is known as "bookkeeping." Bookkeeping is both an art and a science. It is an art in the sense that there should be a well-planned system of keeping such records, with all clerical work done in a neat and painstaking manner. As a science, it deals with the proper classification of property and of income and expense, with the making of sound deductions from the records kept, and with the interpretation of the results through the figures and data compiled.

While it is desirable in every way that the records be neatly and carefully kept, it is of even greater importance that the books shall at all times reflect the absolute truth regarding what has taken place during the life of the business. Bookkeeping is not an end in itself; it is only a means to an end, and the end sought is that certain conclusions may be drawn and certain facts ascertained from the records kept.

Transaction Defined. — A *transaction* is a single event or occurrence in the affairs of an enterprise, such as a purchase of goods; a sale; a receipt or expenditure of cash; a payment of an expense bill; the borrowing or lending of money; etc.

Double Entry Bookkeeping. — The method by which books are usually kept is known as "double entry." This scientific method is based upon the "equation of exchange" that exists in all business and financial transactions. Every transaction, regardless of its nature, consists of an exchange of value or of credit, which, from an economic standpoint, is an exchange of like values. It is thus apparent that every transaction has a twofold effect upon the affairs of any business, resulting from the fact that something has been given as well as received. In order, therefore, that a complete record be made of the transaction, it is necessary to record both the thing received and the thing given. This obviously results in a *double entry*, from which the method derives its name.

Under this method it is necessary to make a careful analysis of every transaction upon which is based the proper classification of the items involved in the exchange. This makes of double entry bookkeeping a subject founded upon fixed rules and principles which must be as thoroughly mastered by the student as would be the case in the study of any other science.

Single Entry Bookkeeping. — Another method of keeping books is that known as "single entry." This method recognizes only that side of the exchange which for one reason or another it is thought desirable to record; in other words, only a single entry is made for each transaction. The method is rarely employed where any importance is attached to the bookkeeping records or where the work is in competent hands.

Single entry is difficult of concise definition because it exists in so many different forms. It is any method of keeping accounts which is not based upon double entry principles. It is employed most frequently in small businesses, institutions, societies, associations, and by private individuals and professional men. In such cases, the most important requirement is usually a record of cash receipts and disbursements, and inasmuch as some one who has no technical training in such work is generally delegated to keep the accounts, the system must of necessity be quite simple. As regards the use of single entry in mercantile houses buying and selling on credit, it is usually defined as a method which makes provision for keeping accounts with persons only.

Debit and Credit. — Debit and credit are technical terms used in the application of bookkeeping principles to denote the twofold effect of every business transaction. They denote position chiefly; an item which is debited being entered on the left side of an account, while an item which is credited is entered on the right side.

Account Defined. — An account is a group of items of the same class. It has two sides, the left side being for debits to the account, the right side for credits. Separate accounts are kept with each class of property owned by a business, with persons with which the business has dealings, and with each class of income and expense.

Accounts may therefore be classified in a general way under the four following heads:

(*a*) Accounts with persons.
(*b*) Accounts with cash, promissory notes, and other mediums of exchange.
(*c*) Accounts with property, both real and personal.
(*d*) Accounts with income, profit, or revenue, derived from any source, and with expenses, allowances, and services.

Books of Record. — The books used in bookkeeping vary greatly in number and name, depending upon the nature and extent of the business.

In the early stages of the study of the subject only the primary books will be used, viz., the *ledger* and the *journal*. When the fundamental processes in bookkeeping are mastered and when facility has been acquired in the use of these two elementary books, other books in common use in mercantile houses, such as the cash book, purchases book, and sales book, will be studied and practice given in their use.

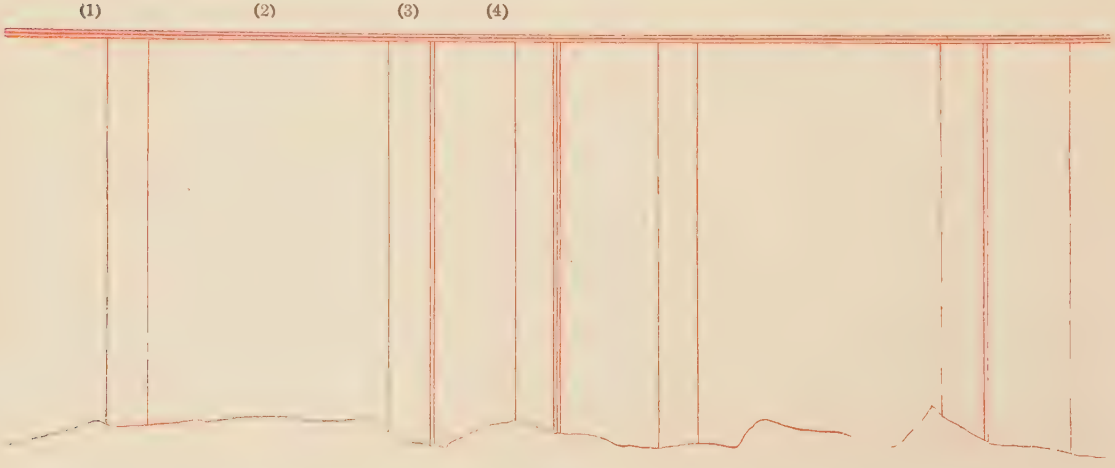
Books of *original entry* are books in which current transactions are recorded as they occur, and from which postings are made to the proper ledger accounts.

Ledger. — The *ledger* is commonly called the "book of accounts," because in this book the accounts are opened with the various classes of items which it is desired to keep separate and distinct.

Entries for the transactions occurring from day to day are made in a journal or in some other book of original entry. At certain intervals these debits and credits are transferred to accounts of the same name in the ledger. Thus an account in the ledger becomes a summary of the debits and credits pertaining thereto found in the books of original entry.

The following illustration gives the ruling of a standard ledger page:

STANDARD LEDGER PAGE



A careful study of the above form will show that the vertical three-line ruling down the center of the page separates the page into two parts, the ruling on the two sides being identical. The left half of the page is used for debits, and the right for credits. The following is an explanation of the use which is made of each ruled space on the debit side of the page, the numbers corresponding to the numbers inserted at the head of each space.

(1) Date column, the wider space being for the month, and the narrower space for the day of the month.
(2) Explanation space, which may or may not be used.
(3) Folio column, in which is inserted the number of the page in the book of original entry from which the item came.
(4) Money column, the wider space being for dollars, and the narrower space for cents.

The spaces on the credit side of the ledger are identical with those on the debit side.

Journal. — The *journal*, used as an elementary book, is a book in which an entry is made for every business transaction as it takes place. The transaction is first analyzed, the account to be debited and credited decided upon from the nature of the exchange involved, and the debit and credit recorded with an appropriate explanation.

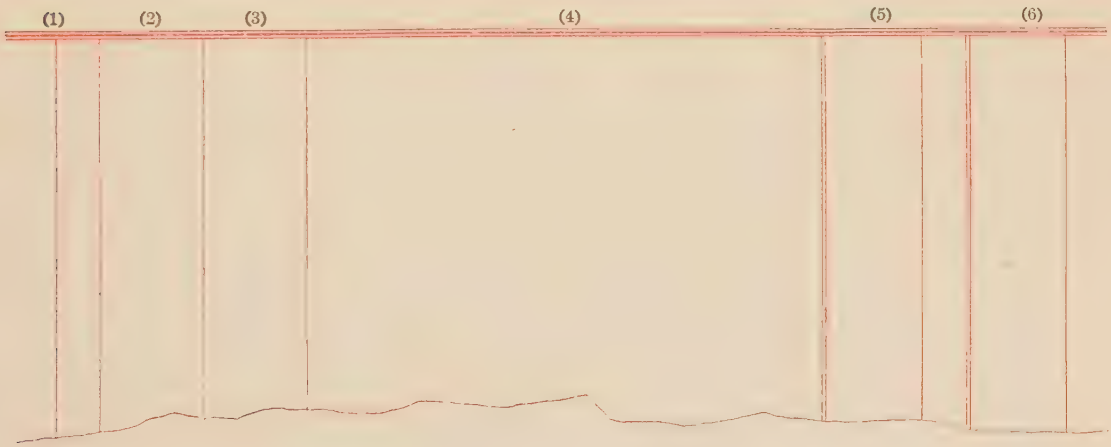
The word "journal" is derived from the French word *jour*, meaning "day"; hence, a journal is a book in which daily entries are made for current transactions.

In actual practice the journal is never used as the only book of original entry, but is invariably used in connection with other books. It then serves as a book in which are recorded all transactions of a miscellaneous character for which no special books are provided.

Memoranda and financial data of a historical nature are often recorded informally in the journal.

The following illustration gives the ruling of a standard journal page:

STANDARD JOURNAL PAGE



The use made of the different spaces is explained as follows, the numbers corresponding to the numbers given at the head of each space:

(1) Folio column, in which is inserted, at the time of posting, the number of the page in the ledger to which the item is posted.
(2) Debit position, the name of the account to be debited being written against the vertical line to the left.

(3) Credit position, the name of the account to be credited being written against the vertical line to the left.
(4) Explanation space; a complete and concise explanation of the transaction is recorded in this space, the writing extending from the single vertical line bounding the space on the left to the first money column on the right.
(5) Debit money column, in which is inserted the amount debited to the account named.
(6) Credit money column, in which is inserted the amount to be credited to the account named.

Posting. — *Posting* is the process of transferring the debits and credits from books of original entry to their proper ledger accounts.

Other Terms Defined. — A *profit* is an increase in value or an excess of the amount received for a commodity over the purchase price or cost of production.

The word *income,* often incorrectly used in the same sense as profit, refers to the return derived from labor, from a profession, from capital, or from property, either personal or real.

A *loss* is a decline in the value of property or an excess of cost over selling price. In bookkeeping, the word " loss " also has reference to any item of expense necessary to the operation of a business.

An *asset* is anything of value owned by a business. It may be any form of real or personal property, or it may be property of either a tangible or an intangible nature. The good will of a business is, for example, an intangible asset.

An asset is frequently spoken of as a *resource.*

A *liability* is a debt or an obligation of any character.

The *fiscal period* is a business or financial period at the end of which the books are closed and financial statements and statistics compiled. If convenient, business houses have their fiscal period end with the closing of the calendar year, but for practical reasons many concerns find it advisable to close their books at some other time. A " fiscal period " is usually understood to mean a year, but the term may refer to a semiannual or quarterly division of the year.

A *wholesale* house buys from the manufacturer or jobber in large quantities and sells to the retailer.

A *retail* house buys from the wholesaler and sells in turn to the consumer.

The practice sets given in this text embody in a general way the principles of bookkeeping for wholesale, rather than for retail, houses.

General Rules for Debiting and Crediting Accounts

Debit the receiver, the thing received, and that which represents an expense or a loss.

Credit the giver, the thing given, and that which represents an income or a profit.

In explanation of the above rule for debiting accounts, it should be observed that the phrase " the receiver " refers to the persons who receive something of value from the business; " the thing received," to the cost of any article, commodity, or property, either personal or real, which comes into possession of the business; " an expense or a loss," to any charges or expenses incurred in carrying on the business.

In the rule for *crediting* accounts, the phrase " the giver " relates to all persons who give something of value to the business; " the thing given," to the value of any article, commodity, or property, either personal or real, which the business parts with; " an income or a profit," to any benefit or return derived from the business.

FUNCTIONS OF CERTAIN ACCOUNTS PECULIAR TO A MERCANTILE BUSINESS

General and Special Rules. — The *general rules* given above for debiting and crediting apply to all accounts and may be used in the analysis of every transaction which may arise. In addition to these general rules, however, certain *special rules* are of great assistance in the classification of accounts, because they define in detail the function of each account, thus making it easier to determine the particular accounts which should be debited and credited in each transaction.

A thorough knowledge of these special rules, together with practice in their application, is highly essential to the student of bookkeeping, and this knowledge should precede any such continuous practice work as is involved in the writing of sets typical of certain lines of business.

Only the more elementary accounts and those which would be found in almost any type of mercantile business are presented at this time. Others will be studied as occasion for their use arises.

In studying the function of an account, a clear understanding of the following points is essential:

(*a*) The purpose of the account and the type of transaction which is recorded thereunder.
(*b*) The nature of the debits and credits that pertain to the account, together with an understanding of the sources from which they are derived.
(*c*) What the balance of the account represents and what disposition is made of it in drawing up financial statements and in closing the books at the end of the fiscal period.

CASH ACCOUNT

The term *cash*, as used in bookkeeping, refers to money of all denominations, both coin and paper, bank deposits, checks, bank drafts, post-office and express money orders, — anything, in fact, that is in circulation as a common medium of exchange.

It is natural for every one to think of business transactions in terms of money or its equivalent, and it is impossible to conceive of a business enterprise being carried on without having at all times a certain amount of money or some other form of cash on hand. In fact, in small businesses conducted entirely on a cash basis, and in many institutions and societies, a method of recording cash receipts and payments is all that is thought necessary in the way of a bookkeeping system. The Cash account and the records that pertain thereto are therefore of particular importance in any bookkeeping system.

The rules for debiting and crediting the Cash account are as follows:

CASH

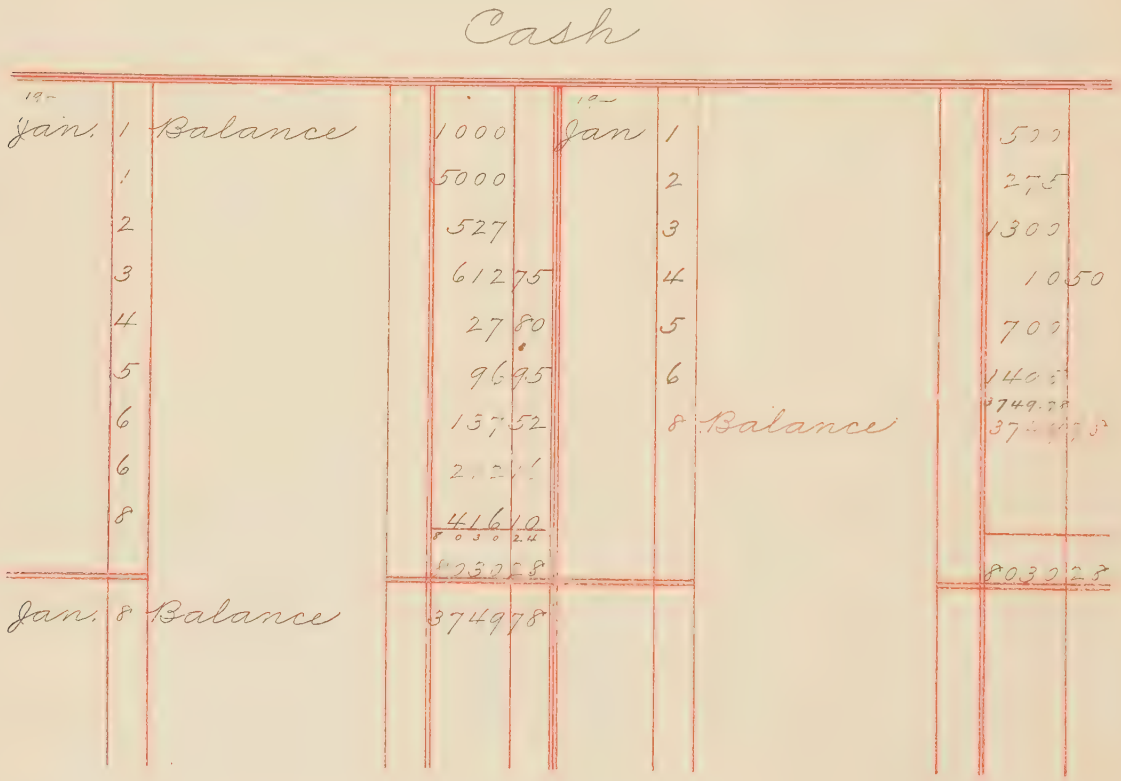
Debit:	Credit:
With cash received, from whatever source. In practice, this account is debited only at the close of each month, with the total receipts for the month as shown by the cash book.	With cash paid. (While most cash is parted with in payment of bills incurred, the account is also credited for cash lost, loaned, or given away.) In practice this account is credited only at the close of each month, with the total payments for the month as shown by the cash book.

The debit side of the account is always the larger. This *balance* shows the cash on hand, and is an asset.

A *proof of cash* consists of finding the difference between the two sides of the account and seeing that this difference is exactly equal to the cash on hand. If a part of the cash is on deposit in the bank, the amount in the bank is added to the cash in the safe, the drawer, or the cash register. Cash is proved at least daily, and more frequently if either receipts or payments are numerous and large in volume.

In practice, the individual items of cash receipts and payments are recorded in a special book called a " cash book." The Cash account in the ledger then shows only monthly totals of cash transactions. In the following illustration of a Cash account, however, and in the early exercises that are given for practice, the individual items of receipts and payments are recorded on the proper sides of the ledger account.

When the amount to be recorded is an even number of dollars, some bookkeepers draw a short horizontal line through the space for cents, a little above the blue line.



An account is balanced as follows:

(1) Foot in small pencil figures the debit and credit sides of the account.

(2) In the explanation space on the side of the account which has the larger total, and on a line with the last item, place the difference between the two sides of the account in small pencil figures, determining the difference by mental subtraction if possible.

(3) Enter the balance in red ink in the first space on the smaller side of the account.

(4) Draw single lines in red on a level across the money column on each side of the account, and one space below draw double lines in red across all columns except the explanation space on each side. These lines are drawn on the blue lines. Write the total of each column in black in the space beneath the single horizontal line.
(5) Bring the balance down in black on the opposite side of the account under the next succeeding date.

The Use of Red Ink. — If red ink is used at all by the bookkeeper, it is used for all ruling in the ledger and in books of original entry and in balancing ledger accounts. In balancing an account, as explained above, the balance or inventory or net worth, whichever it may be, is entered on the smaller side of the account in red ink to bring the two sides into agreement prior to ruling the account. The balance is then transferred to the opposite side of the account, generally in black ink, although many bookkeepers bring down the balance in red in order to distinguish it from subsequent posting to the account.

Many modern offices have done away entirely with the use of red ink in the bookkeeping department, and schools in which bookkeeping is taught have in many instances adopted the same plan. By using black ink for all purposes, an economy is effected in the cost of ink, desk equipment, and time; red ink adds nothing to the bookkeeping except a certain artistic touch which can well be sacrificed in the busy office for practical reasons.

All suggestions regarding the use of red ink in this text conform to the conventional practice, but teachers may follow their own ideas and convenience in the matter.

Exercises for the Student

Exercise A

The following transactions are to be recorded on the proper sides of a Cash account, after which the account is to be balanced, as shown in the illustration, the work being done on ledger paper. Entries are to be recorded in the month of November, the numbers to the left of each transaction indicating the date. The explanation space need not be used. The current year is to be used throughout the book in connection with all exercises required. Use ledger paper for these exercises, if you are not provided with a ledger.

1 Balance on hand, $19.27.
2 Collected dues to the High School Athletic Association from 170 students at 50¢ each.
3 Received from merchants for advertising space in the program for the Thanksgiving Day game, $64.50.
5 Paid printing bill for membership tickets, $20.
10 Collected dues from 63 students.
13 Bought two football suits at $12.60 each.
17 Received for advertising space, $72.60.
18 Bought new football, $6.
20 Paid bill for printing programs, $42.
22 Bought postage stamps, $10.20.
23 Collected dues from 19 students, $9.50.
25 Received for advertising space, $27.75.
26 Gate receipts of Thanksgiving game, $272.25.
27 Received for advertising space, $3.
30 Paid miscellaneous expenses of the game, $92.80.

Exercise B

James Moore, a merchant, received and paid out cash as follows for the month of December 19—. Construct a Cash account and balance the account at the end of the month. Leave three blank lines between the accounts.

1 Balance on hand at beginning of month, $1272.65.
2 Received from C. W. Curtis & Co. to apply on account, $300.
3 Paid Rhodes & Co. $500 to apply on account.
5 Paid rent for month, $200.
7 Cash sales of merchandise, $427.90.
8 Paid advertising bill, $125.
9 Paid bill for stationery and postage, $27.50.
10 Received from John E. Martin $129.65 in full of account.
12 Received from Altman Bros. $250 to apply on account.
13 Paid S. I. Andrews $122.31 in full of account.
15 Cash sales of merchandise, $62.84.
17 Borrowed $200 from Herman Lowe.
18 Bought automobile truck costing $1500.
20 Paid wages and salaries, $540.17.
22 Henry King paid his account in full, $512.60.
24 Received from Charles Lee & Co. $500 to apply on account.
26 Cash sales of merchandise, $327.75.
27 Received $277.60 from Thomas Smith in full payment of his account.
31 Paid the following expense items for the month: gas and electric bill, $29.72; telephone, $19.80; janitor, $50; office salaries, $475; coal bill, $38. (Enter singly.)

PERSONAL ACCOUNTS

Personal accounts are accounts kept with individuals, firms, and corporations with which the business has dealings. Such accounts are made necessary by the fact that a large volume of the average business is transacted on credit; goods are bought and sold on account, money is borrowed and loaned, and credit is extended in various other ways. Under such circumstances it is essential that an account be kept with each person or company with which the business has dealings, in order that those in the business may know at any time the exact amount that is owed to them or by them.

Personal accounts are of two classes, viz., those with *debtors* and those with *creditors*.

A *debtor* is one who owes or who is indebted to another.

A *creditor* is one who is owed or one who has granted credit to another.

Accounts with debtors taken collectively are called *Accounts Receivable;* those with creditors, *Accounts Payable.*

The terms *debtor* and *creditor* have a purely personal application and should not be confused with the arbitrary terms *debit* and *credit*, which have both a personal and an impersonal application and are used to state the position an item occupies in an account.

The abbreviation for debtor is *Dr.*; for creditor, *Cr.* These abbreviations are also frequently used to denote debit and credit, which suggests the fact that the latter terms, used in double entry bookkeeping to apply to an account of any class, have a purely personal derivation and grow out of the relationship of trust which exists in all cases where business is done on credit.

In its primitive forms commerce was carried on entirely by barter, and later it was conducted through some common medium of exchange, which always resulted in a completed transaction; hence there was no real necessity for bookkeeping. Similarly at the present time it is not *necessary* for a private individual, a family, or any business conducted on a strictly cash basis to keep books. In such cases, much can be trusted to memory, the amount of cash on hand indicating quite clearly the financial position of the individual and the extent of his prosperity.

The expansion of credit at once gave rise to the necessity of keeping personal accounts, at least, as the details connected with the business carried on with many persons would be entirely too numerous to be retained in any other manner. Our bookkeeping terminology and its scientific development have therefore grown up side by side with the development of credit and credit instruments.

The rules for debiting and crediting personal accounts are as follows:

PERSONAL ACCOUNTS

Debit:	Credit:
For sales of goods or property on account.	For purchases of goods or property on account.
For cash payments made to a person on account.	For cash received from a person on account.
For promissory notes issued to others on account.	For promissory notes received from others to apply on account.
For personal loans made by the business.	For personal loans to the business.
For goods which the business returns for credit, and for any discounts, rebates, or allowances granted to the business.	For goods which are returned to the business for credit, and for any discounts, rebates, or allowances.

The *balance* shown by a personal account, if a debit, is the amount owing to the business, and is an asset; the balance, if a credit, is the amount owing by the business, and is a liability.

Creditors' accounts always show credit balances.

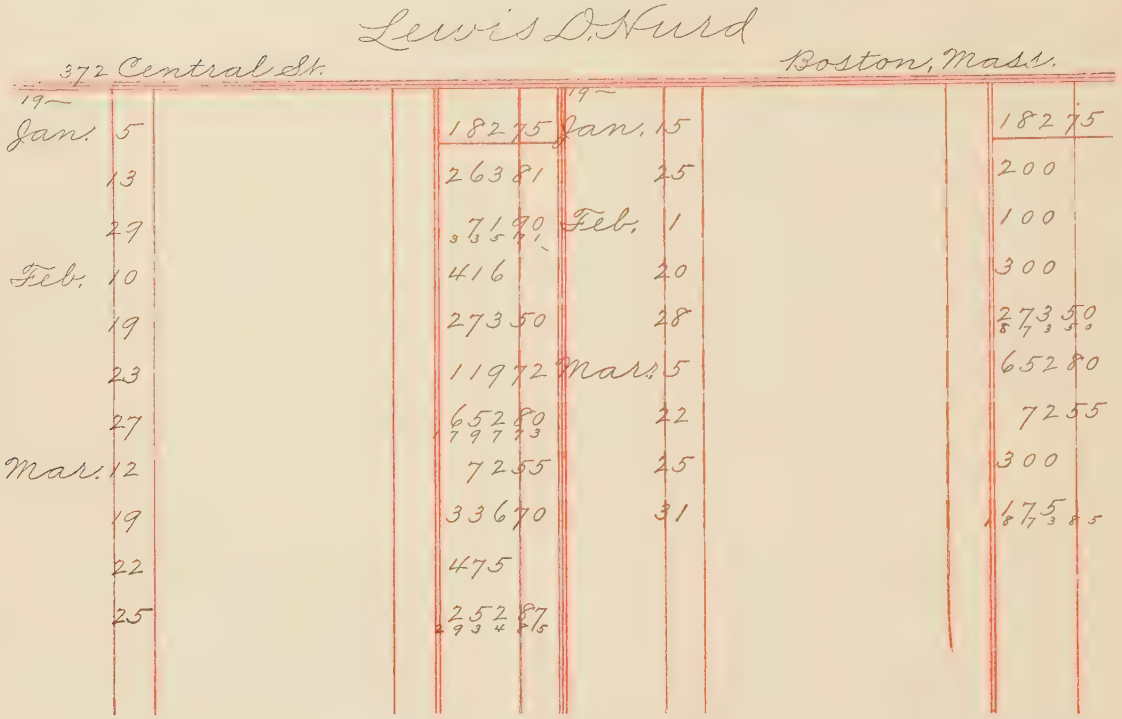
Debtors' accounts always show debit balances.

An account with a debtor is illustrated on the next page.

In case payment of each bill is made in full in accordance with the terms thereof, the items on each side of the account will usually offset each other; a single line may then be drawn across the money column on each side to indicate that the account is in balance at that point.

But if payments are made on account, without applying to any particular bill, the items on each side bear no apparent relation to each other, and a balance would be " struck " by footing the two sides of the account in small pencil figures, finding the difference between the two, by mental subtraction if possible, and entering the difference in pencil on the larger side and on a line with the last item.

Personal accounts should be balanced at the end of the fiscal period at the time of closing the books, in the same way that the Cash account is balanced as illustrated on page 14, and the balance carried forward under the beginning date of the new fiscal period.



Exercises for the Student

Exercise A

Construct ledger accounts with the following debtors and creditors, using ledger paper: (Leave three blank lines between the accounts.)

A. R. Davenport, 177 Custer St., Worcester, Mass. (a debtor).

January 1 Balance due, $277.50.
2 Sell him on account, 10 days, $727.30.
5 Sell him on account, $419.87.
12 Receive cash in payment of bill of the 2d.
15 Sell him on account, $227.55.
27 Receive note at 30 days for $400 to apply on account.

February 8 Sell him on account, $652.70.
19 Sell him on account, $375.
24 Receive check in payment of bill of January 15.
28 Sell him on account, $192.65.

Exercise B

William E. Hayes, 140 High St., Trenton, N. J.

May 6 We complete contract for the construction of an addition to his factory and charge him with the contract price, $12,250. A cash payment of $5000 is made to apply on the contract on May 8, and the balance is to be paid in monthly installments of $500 on the 10th of each month. Granting that all payments are made promptly, beginning with May 10, show how the account stands on December 31 of the same year.

Exercise C

The Tobin Manufacturing Company, 227 Broad St., New York, N. Y.

June 1 We purchase machinery from them for the equipment of our factory at a total cost of $197,612.50. Terms of payment are as follows: $50,000 cash, payable June 10; four notes of $25,000 each, dated July 1, and running three months, six months, nine months, and one year, respectively, and the remainder payable in cash in monthly installments of $5000 on the first day of each month, beginning October 1.

Assuming that all the terms have been met, how does the account stand on December 31, at the time of closing the books?

Exercise D

Gray & Gillis, 27 Burroughs St., Memphis, Tenn. (Creditor.)

March 1 Balance owing to them, $96.85.
5 Buy from them on account 10 days, $216.55.
11 Buy from them, net cash, $129.87.
12 Send them check in payment of invoice of the 11th.
14 Buy from them, on account, $425.70.
15 Send them check in payment of invoice of the 5th.
20 We return for credit, goods to the amount of $27.25 bought on the 14th.
22 Buy from them, note 60 days, $515.
23 Send them our note in payment as per terms of purchase of the 22d.
24 Send check in payment of invoice of the 14th, less goods returned for credit.
30 Buy from them, net 60 days, $391.60.
April 10 Buy from them, on account, $227.85.
17 Buy from them, on account, $119.88.
20 Upon request, we send them our 30-day note for the amount of invoice of the 10th.
21 Buy from them, on account, $471.82.
26 Send them check in payment of invoice of the 17th.
30 They write us that we made an error in the check sent them the 26th, the check being drawn for $1 too much. They state that they have credited our account.

NOTES RECEIVABLE AND NOTES PAYABLE ACCOUNTS

These accounts are used to keep a record of promissory notes received and issued by the business.

A *promissory note* is a promise in writing to pay a certain sum of money at a definite time; a note usually bears interest at a rate agreed upon by the parties to the instrument.

The person, firm, or corporation which issues the note is called the *drawer* or *maker;* the one in whose favor it is issued, the *payee.*

A *negotiable* note is one so drawn that it may be transferred by the payee to a third party by indorsement and delivery; a *non-negotiable* note is one which cannot be transferred.

A note to be negotiable must contain one of the following phrases: "to the order of"; "or order"; "or bearer." Most notes, as well as other instruments of credit, are negotiable in form.

A legal transfer of a note or other form of negotiable paper is effected by *indorsement* by the payee or holder and delivery to the new owner.

In addition to effecting a legal transfer of the instrument, the indorsement is a guarantee to the new holder that the instrument is genuine and that the indorser has legal title thereto. Liability is fixed upon the indorser in case the maker fails to honor the instrument at maturity or in case any flaw is later discovered in connection with the issue or transfer of the instrument.

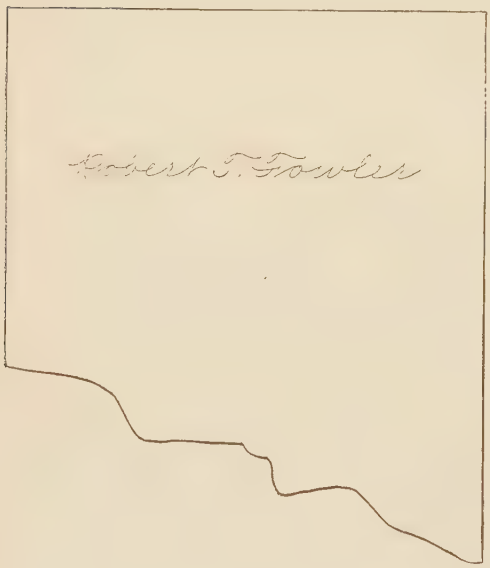
There are several forms of indorsement, the most common being: (1) blank; (2) full or special.

A *blank* indorsement consists only of the indorser's name written across the back of the left end of the instrument. Such an indorsement makes the instrument payable to bearer.

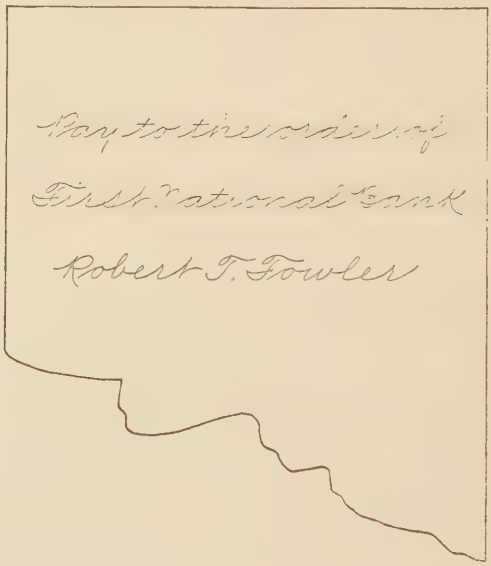
A *full* or *special* indorsement makes the instrument payable to a particular person, bank, or other institution.

The following illustrations show both forms of indorsements:

BLANK



FULL OR SPECIAL



The following illustrates a form of a negotiable interest-bearing note:

NEGOTIABLE INTEREST-BEARING NOTE

$946 30/100 Manchester, N. H., Mar. 19, 19—

Ten days after date I promise to pay to the order of James C. Phillips

Nine Hundred Forty-six 30/100 Dollars

Payable at Commercial Bank

Value received, with interest at 6%.

No. 1 Due Mar. 29, 19— Edwin R. Hilman

A time draft drawn in favor of a business or issued by the business, following proper acceptance, has the same characteristics as a promissory note, in that it is a written evidence of a debt falling due at some definite future time. Such a draft is almost obsolete, but if met with it should be recorded either in the Notes Receivable or Notes Payable account, the same as a promissory note. Such drafts were formerly in common circulation and were spoken of as Bills of Exchange, which resulted in these accounts receiving the names of *Bills Receivable* and *Bills Payable*, titles that are still quite frequently used.

Notes Receivable and Accounts Receivable both represent debts owing to the business, the distinction being that in the case of a note the debtor has reduced the debt to writing, and over his signature has agreed to pay the debt on demand or at the expiration of a certain time; while in the case of a book account there is only an implied promise to pay the amount due.

It should be understood that the holder of a note is in no better position in case of the failure of the debtor than is the creditor who merely has an account on his books against the delinquent debtor, as the two rank equally as creditors of the bankrupt. However, one advantage which the holder of a debtor's note possesses is that the note may be negotiated, by which means money may be raised thereon. Another advantage in case of bankruptcy is that the holder of a note need not prove his claim, a procedure required of all creditors who claim to be owed on open account.

Interest may legally be charged on an overdue account of any character.

It was formerly a common practice for the debtor to issue a promissory note to his creditor to apply on account of goods bought, or in direct exchange for the goods. Such notes, commonly called "merchandise notes," are rarely given at the present time. If a man lacks sufficient capital to carry on his business or to take advantage of the discounts offered him by his creditors, he arranges for a loan at his bank, and with the proceeds of his note discounted by the bank, he is enabled to make the necessary purchases of goods or supplies, to discount his bills, or to pay off any indebtedness. The bank thus becomes the medium by means of which a business is generally financed. Such an institution is in a position to advise a business man wisely regarding his affairs, and a line of credit maintained there is a certain guarantee of a sound financial rating.

When a loan is made at the bank, the usual procedure is for the bank to discount the note of the borrower, or, in other words, to reckon the interest on the note for the time it is to run, deduct the interest from the face of the note, and credit the account of the borrower with the remainder, which is called the proceeds.

As security, the bank will usually require an indorsement of the note by some person of ample credit who is acceptable to the bank. Such a person by his indorsement of the borrower's note guarantees to the bank the payment of the note at maturity. The indorsement of such a note is usually an act of business courtesy on the part of the indorser, the accommodation being granted and the risk undertaken in the interest of proper co-operation among business men. In such a case, the note is usually drawn by the maker in favor of "*Myself.*" The maker indorses the note in blank, as does also the indorser, and the note is then discounted by the bank.

For purposes of illustration let it be assumed that John C. Knight needs additional cash capital and arranges with the Corn Exchange Bank for a four months' loan of $3000 at 6%. He arranges with David F. Reed to indorse his note, which indorsement is acceptable to the bank.

The note would be written as shown in the illustration on the following page.

LOAN NOTE

$3000 00/100 Omaha, Nebr., May 1, 19—

Four months after date I promise to pay to the order of Myself

Three Thousand no/100 Dollars

Payable at Corn Exchange Bank.

Value received, discounted at 6%

No. 2 Due September 1, 19— John C. Knight

The note would be indorsed as follows:

BLANK INDORSEMENT

John C. Knight

David F. Reed

The bank would find the exact number of days between the date the note bears and its date of maturity. Interest at 6 % on $3000 for this time, 123 days, amounts to $61.50, which is the amount the bank receives for discounting the note. The interest subtracted from the face of the note leaves $2938.50 as the proceeds of the note, which amount would be placed to the credit of Knight's account. At maturity Knight will meet the loan at the bank or, in the possible event of his failure to do so, the bank will call upon Reed to take up the note.

The Notes Receivable account shows all transactions involving the notes of other persons or firms. The function of this account is expressed as follows:

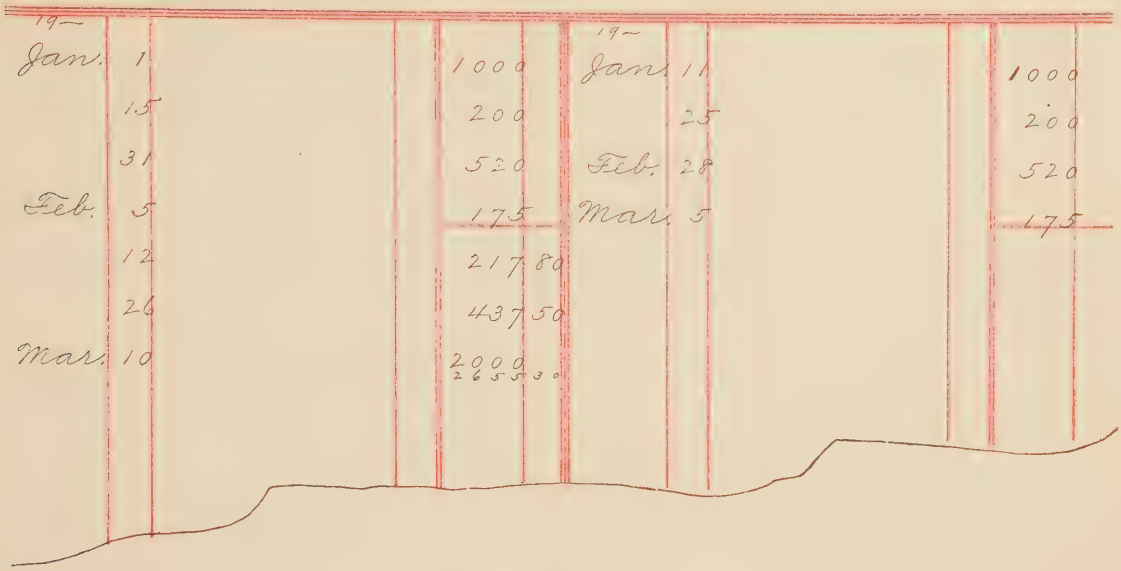
NOTES RECEIVABLE

Debit:	Credit:
At face value with notes of others received by the business.	At face value with notes of others which are paid in full; with partial payments made thereon; with face value of notes of others discounted at bank or transferred by indorsement to third parties.

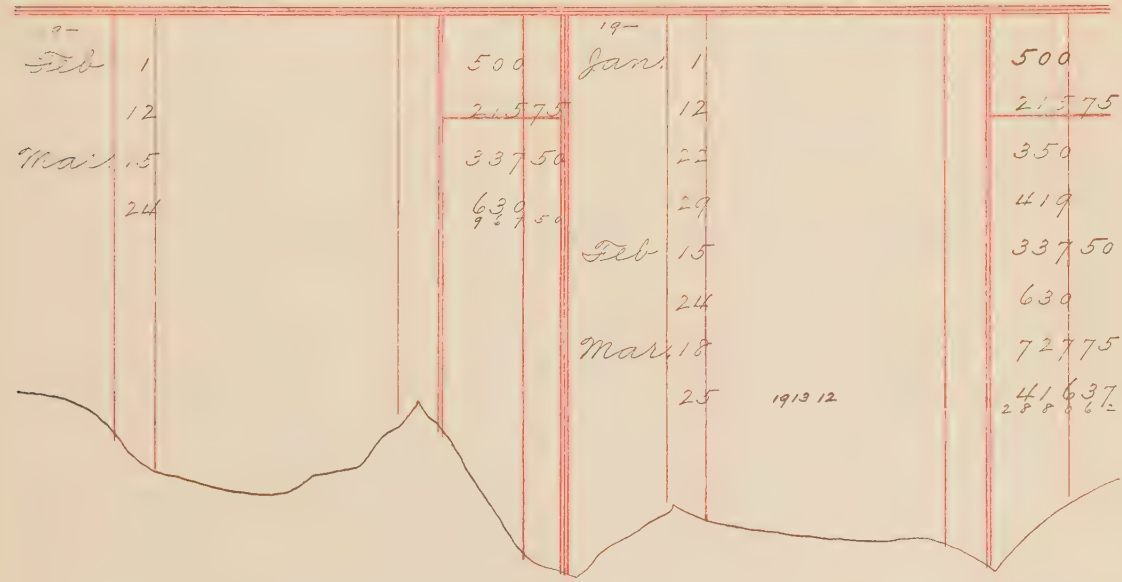
The *balance* is always a debit, and shows the face value of notes of others which the business holds. In the latter case, the balance is an asset.

The Notes Payable account shows the transactions arising from the issue of the person's or the firm's own notes. The function of this account is expressed on the following page.

Notes Receivable



Notes Payable



NOTES PAYABLE

Debit:	Credit:
At face value with notes paid in full; with partial payments made thereon.	At face value with notes issued by the business.

The *balance* is always a credit, unless the account exactly balances, and shows the face value of all the unpaid notes of the business. In this case, the balance is a liability.

In the wording of a transaction it will be observed that " his note " or " their note " always relates to Notes Receivable; that " my note " or " our note " always relates to Notes Payable.

It should also be borne in mind that all debits and credits to both Notes Receivable and Notes Payable are for the face value of the note, the only exception being in the case of partial payments made, in which case the debit or credit is for the amount of the payment.

The preceding illustrations show ledger accounts with Notes Receivable and Notes Payable.

Exercises for the Student

Exercise A

Construct a Notes Receivable account from the following and determine the balance of the account as of February 28. Follow the instructions given heretofore.

January 1 We receive note at 30 days for $200 from John A. Smith.
5 We receive note at 30 days for $328.65 from Charles Curtis.
18 We receive note at 90 days for $272.56 from J. E. Russell.
21 We receive note at 10 days for $520 from Thomas Greene.
28 We receive note at 1 month for $415 from Harris & Smith.
February 1 John A. Smith pays his note due to-day.
5 Charles Curtis pays his note due to-day.
10 We receive note at 60 days for $119.75 from Sidney Ferguson.
21 Thomas Green pays his note due to-day.
24 We receive note at 30 days for $217.82 from H. W. Reynard.
27 We receive note at 60 days for $500 from John E. Grimes.
28 Harris & Smith pay their note due to-day.

Exercise B

Construct a Notes Payable account from the following and determine the balance of the account as of April 30.

March 2 We give our note at 10 days for $450 to J. S. Bolles.
9 We give our note at 30 days for $622.50 to M. Grant & Co.
10 We give our 20-day note for $125 to E. W. Thompson.
12 We pay our note due to-day.
20 The Commercial Bank discounts our 60-day note for $1000.
23 We make a payment of $100 on note issued to M. Grant & Co. on the 9th.
30 We pay our note of $125 due to-day.
April 4 We give Upham & Putnam our note at 90 days for $200.
9 We pay the balance of our note of March 9 due to-day.
15 The Commercial Bank discounts our 90-day note for $1500.
27 We give our note at 30 days for $750 to Eaton & Co.
30 We make a payment of $50 on note of the 4th.

Exercise C

Construct a Notes Receivable account from the following:

May 1 Balance $1239.56.
5 We receive note at 90 days from A. B. Roche & Co. for $732.80.
9 John M. Gray transfers to us by indorsement Cutter & Parker's note for $1000 due August 1.
12 We receive note at 10 days from Merrill & Co. for $282.75.

18 We lend $100 to Walter C. Harris and take his 30-day note.
22 Merrill & Co. pay their note due to-day.
28 We sell note of A. B. Roche & Co. to the Commercial Bank which credits our account with the proceeds.
31 We receive 30-day note from A. J. Thompson for $225.
June 1 Walter Johnson pays his note of $300 due to-day.
5 Webb & Co. pay their note of $175 due to-day.
12 We receive note at 60 days for $812.75 from Merrill & Co.
18 Walter C. Harris pays his note due to-day.
25 Thomas Sinclair pays his note of $200 due to-day.
30 A. J. Thompson pays his note due to-day.

Exercise D

Construct a Notes Payable account from the following:

July 1 Balance, $1200.
5 We give our note at 60 days for $517.50 to Henry B. Ward.
8 We pay our note of $200 held by J. S. Oliver & Co. which is due to-day.
17 We give our note at 10 days for $570 to R. H. Kingman.
19 We borrow $1000 from the Commercial Bank, the bank discounting our 60-day note for that amount.
25 L. W. Gilman allows us to prepay our note of $500, which is not due until September 1, allowing us discount on it at 5 % to maturity.
27 We pay our note of $570 which is due to-day.
August 1 We pay our note of $117.80 which is due to-day.
11 We borrow $800 from L. W. Stearns & Co., giving them our four months' note.
15 We give J. D. Beyer & Co. our note at 10 days for $422.90.
17 We pay our note of $225 which is due to-day.
23 We give A. M. Rounds our note at 30 days for $250.
25 We pay our note of $422.90 which is due to-day.
29 We borrow $700 from the Commercial Bank, the bank discounting our 30-day note for that amount.

Exercise E

Write the following promissory notes, giving careful attention to all details:

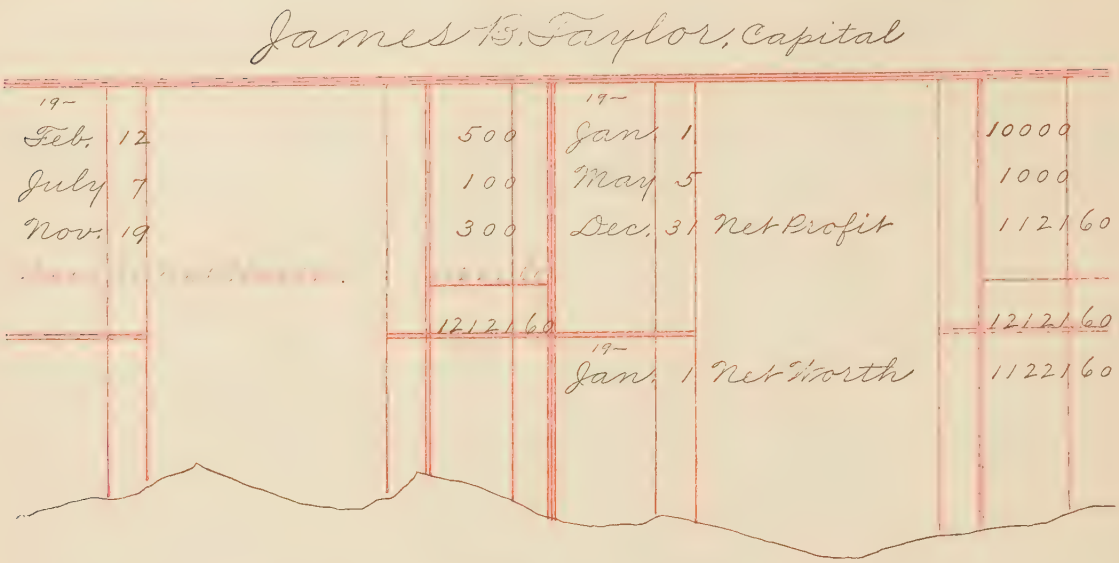
(*a*) A note of $500, payable in six months, issued by George W. Wright in favor of William C. Keller, dated March 10, and bearing interest at 5 %.

(*b*) A note of $287.90, payable on demand, issued by Jones Manufacturing Company, signed by the president of the company, W. C. Jones, in favor of Thompson Construction Company, dated July 19, and bearing 6 % interest.

(*c*) Thomas McBride gives Walter G. Hill his note at 60 days, dated May 29, and bearing interest at 5½ %. Face of note $465; payable at the Commercial Bank.

(*d*) John E. Trifiro negotiates a loan for four months at the Tenth National Bank for $900; Henry Shapiro indorses the note, which is dated October 3. The bank discounts the note at 5 %. Write the note and show the proper indorsements thereon.

(*e*) Jacob E. Bates borrows $1000 from George D. Light for one year, giving his note, dated June 22 and bearing interest at 6 %. Light sells the note to his bank, the Blank Trust Company, at a discount of 6 %, on November 29. Bates pays $200 on the note on December 15. Write the note and show the proper indorsements thereon.



PROPRIETOR'S ACCOUNT

In a business conducted by an individual owner, often called a sole proprietorship, an account is kept with the proprietor to show his original investment, any additions thereto, his drawings, and, at each closing of the books, his entire financial interest in the business.

The function of such an account is expressed as follows:

PROPRIETOR, CAPITAL ACCOUNT

Debit:	Credit:
With drawings of cash, merchandise, or other property. (Only when a Personal account is not kept.)	With original investment of cash, merchandise, or other property.
With personal debts or expenses paid from the funds of the business. (Only when a Personal account is not kept.)	With additional investments.
At the time of closing the books with the net loss (if any) for the fiscal period.	At the time of closing the books with the net profit for the fiscal period.

After the books have been closed at the end of a fiscal period, the *balance* of the account, if a credit, shows the net worth of the proprietor; if a debit, it shows his net insolvency.

The *net investment* of the proprietor is the original investment and any additions thereto, less drawings, but exclusive of business profits added or losses deducted.

The *net worth* of the proprietor is the amount standing to the credit of his account following the closing of the books at the end of any fiscal period. This is also called *net capital* or *present worth.*

Net insolvency is the condition which exists in the event of the drawings and net loss exceeding the investment, leaving the capital account with a debit balance.

In addition to the capital account kept with the proprietor, it may be advisable under certain conditions to keep a separate personal account. For example, if the proprietor allows himself a certain amount for personal salary against which he draws to meet current expenses or against which personal bills are charged if paid for from the funds of the business, such an account results in a better classification of the proprietor's affairs. In such a case, the function of the account is as follows:

PROPRIETOR, PERSONAL ACCOUNT

Debit:	Credit:
With amounts drawn in cash against the salary allowance.	With monthly salary allowance.
With personal expense bills paid from the funds of the business.	With amounts temporarily deposited in the business.

The *balance*, if a credit, represents the undrawn portion of the salary allowance; if a debit, it represents the excess of drawings over salary allowance plus temporary deposits, if any.

A proprietor's capital or investment account may be illustrated as on page 26.

Exercises for the Student

EXERCISE A

Frank G. Carter began business May 1, investing cash, $5000; merchandise, $12,121.50; Notes Receivable, $1100. He withdrew during the year the following amounts: July 16, $500; November 1, $150; January 11, $375; April 3, $250.

Find his net investment.

The business made a profit the first year of $7638.42 above all expenses, including salary of proprietor. Construct Carter's Capital account, find his net worth at the end of the year, and close the account.

EXERCISE B

Thomas Shelby began business July 1 with the following investment: cash, $7500; note of $1000 of Harry B. Coleman; sundry accounts receivable, $1297.60; merchandise, $9872.50. During the six months ending December 31, he made the following withdrawals: August 20, $200; September 1, $525; November 10, $220. On December 1 he invested $1500 additional in cash. At the end of the first six months the business showed a loss of $187.65.

Construct an account with Shelby, find his net worth December 31, and close the account.

EXERCISE C

Frank E. Davis invested $22900, consisting of cash, accounts receivable, and merchandise, in a drug business January 1. He also brought on his books a note of $1700 which the bank held against him. On March 1, he withdrew merchandise for private use amounting to $127.60; July 3, he bought an automobile for private use costing $2500, which was paid for from the funds of the business; October 1, he returned the $2500 used to pay for the automobile and invested $1000 additional. On December 31, the business showed a net profit of $918.76.

Find Davis's net worth at the end of the year and close his account.

EXERCISE D

Frank E. Davis allowed himself a salary of $300 a month, which he credited monthly on the last day of each month to his personal account, at the same time debiting a salary account.

During the year he withdrew in cash the following amounts: January 31, $100; March 2, $250; April 1, $200; May 1, $175; June 3, $400; August 1, $300; September 5, $265; October 10, $350; December 15, $500; on May 5, a carpenter's and painter's bill for repairs at Davis's residence amounting to $263.75 was paid from the funds of the business; November 1, a coal bill of $84.50 was so paid, and December 2, a life insurance premium of $187.20.

Construct a personal account with Davis and balance the account as of December 31.

ACCOUNTS WITH MERCHANDISE

Merchandise is the name given to all goods which are bought to be sold again. It is a collective title applying to the commodities in which a merchant deals.

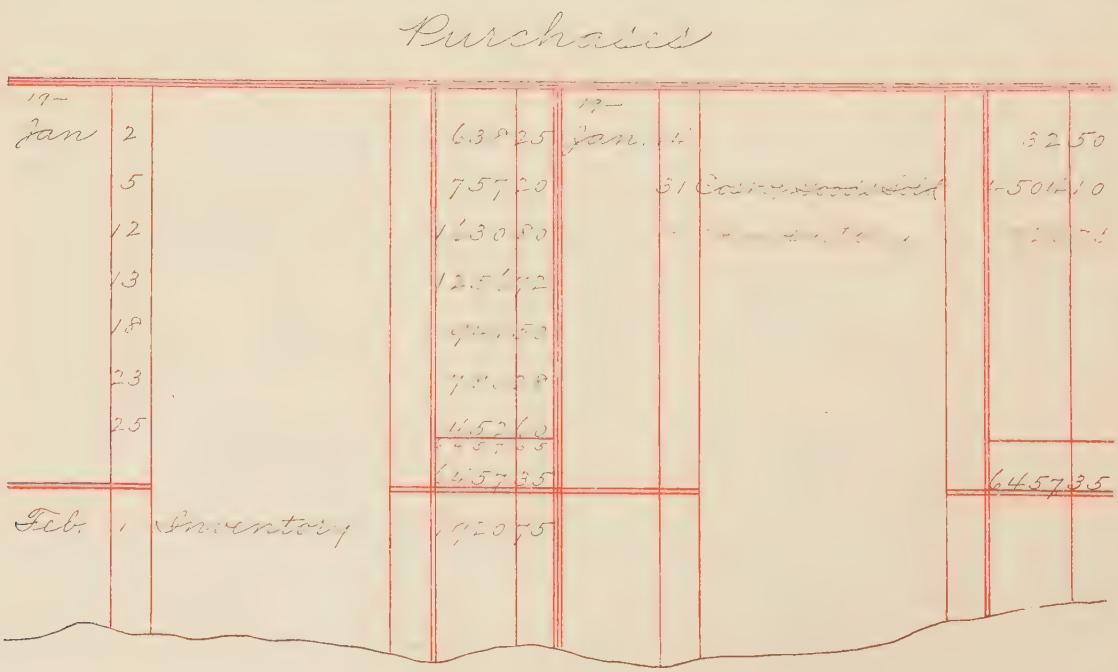
The trading activities of a merchant are based primarily upon his purchases and sales of merchandise. In order to provide an accurate record of these activities, two accounts are kept, called respectively a *Purchases* and a *Sales* account.

The function of the Purchases account is expressed as follows:

PURCHASES

Debit:	Credit:
With the cost price of merchandise purchased. If no Freight and Cartage account is kept, with cost of all freight and cartage bills on merchandise bought. In practice, the invoices covering merchandise purchased are entered in some form of a purchases book or voucher register. This account is then debited only at the close of each month with the total purchases for the month.	At cost price with merchandise returned by the business for credit. With merchandise taken from stock by the proprietor. With merchandise donated to charity. With merchandise sold to employees at cost, unless a special account is kept for such sales. With merchandise shipped to commission merchants and charged at cost price. With any rebates or allowances granted the business on the basis of cost price. At the time of closing the books, with the cost of merchandise sold during the fiscal period.

The *balance*, previous to closing the books, shows the net cost of merchandise purchased. After the books are closed, following the entry indicated by the final credit to the account stated above, the account shows by its balance the cost of merchandise on hand. The following is a model of a Purchases account:



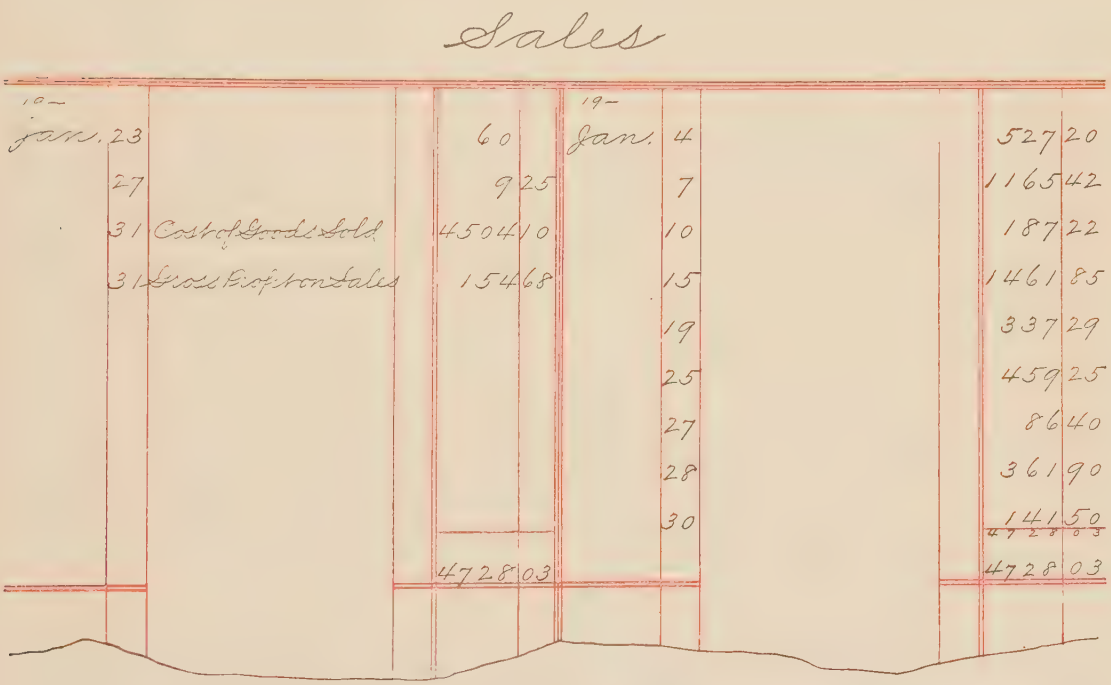
The function of the Sales account is expressed as follows:

SALES

Debit:	Credit:
At selling price, with merchandise returned to the business for credit. With rebates or allowances of any kind granted by the business, based upon selling price.	With the selling price of merchandise sold. In practice, all sales of merchandise are recorded in a sales book and this account credited only at the close of each month with the total sales for the month.

The *balance* at any time during the fiscal period shows the net sales. At the time of closing the books the account is debited with the cost of merchandise sold, the *balance* thus showing the gross profit on sales, which is closed into the Profit and Loss account.

The following is a model of a Sales account:



An *inventory* of merchandise is the value of goods in stock, reckoned usually at cost price.

A "physical" inventory is taken by making an actual count of all unsold goods. These goods are listed on inventory sheets, the cost price per unit of each commodity is annexed, and the total inventory calculated.

A "perpetual" inventory is kept in books or on cards, a separate account or card being kept for each article dealt in, which shows the purchases and sales of each and the balance which should be in stock at any time. This is also called a "book inventory" or a "going inventory."

In wholesale houses it is the general practice to keep a perpetual inventory of stock; in some retail establishments dealing in a comparatively few commodities, such as furniture, carpets, rugs, etc., or in stores carrying only a few lines, it is also a common practice and has numerous advantages.

The *cost of goods sold* is the result obtained by deducting the inventory of merchandise from the net cost of merchandise purchased. This result is obtained at the close of the fiscal period and is used in preparing a profit and loss statement.

The *gross profit on sales* is the result obtained by deducting the cost of goods sold from the net sales. This result is also used in preparing a profit and loss statement.

Freight on merchandise bought is always treated as a part of the cost of the goods and is often charged directly to the Purchases account. A better practice is to keep all freight and cartage bills in a separate account, called Freight and Cartage or Freight Inward.

The function of such an account is stated as follows:

FREIGHT AND CARTAGE

Debit:	Credit:
With the cost of freight, cartage, and express on all shipments of merchandise bought.	With rebates or allowances, if any, granted by the transportation company.

The *balance* is a debit and shows the net cost of freight and cartage on merchandise bought. In closing the books, this account is commonly closed into the Purchases account.

It should be observed that the account takes care of freight and cartage only on goods bought. If it is the practice of the business to pay freight and delivery charges on goods sold, a separate account should be opened to take care of such charges, as they need an entirely different classification.

Freight on goods bought is a part of the purchase price; freight on goods sold is a selling expense.

Exercises for the Student

EXERCISE A

Herbert C. Ball during the month of September purchased the following invoices of goods:

1st, $1267.80; 2d, $412.55; 7th, $368.75; 11th, $776.25; 18th, $527.65; 21st, $119.83; 24th, $271.64; 26th, $847.29; 28th, $171.45. On the 23d, he returned goods to the amount of $72.83 and was allowed credit for them at cost price.

During the month he sold the following bills of goods:

5th, $632.95; 7th, $461.54; 9th, $726.20; 12th, $191.60; 13th, $82.75; 19th, $176.28; 20th, $481.25; 21st, $215.43; 23d, $512.20; 28th, $49.87; 29th, $332.91; 30th, $276.80. A customer returned goods to the amount of $141.60 on the 20th, for which he was allowed credit at selling price.

An inventory taken September 30 showed goods on hand at cost price amounting to $2460.57.

Open a Purchases and a Sales account, record the above transactions thereunder, reckon the cost of goods sold and the gross profit on sales, and close the two accounts.

EXERCISE B

Horatio N. Drummond during each month of the year ending December 31, purchased goods as follows, as taken from his purchases book:

Inventory, January 1, $12,615.80.

January, $12,629.50; February, $21,612.80; March, $41,160.75; April, $9620.87; May, $11,612.50; June, $14,850.87; July, $3412.65; August, $2627.80; September, $8467.27; October, $27,412.82; November, $31,421.70; December, $20,456.82.

He returned goods as follows: May 1, $260.40; July 11, $37.28; October 29, $141.50; June 3, he withdrew from stock for personal use goods costing $216.20; August 15, he contributed to a local relief fund goods costing $112; December 1, he withdrew for personal use goods costing $72.45.

During each month of the year his sales were as follows as taken from his sales book: January, $12,327.56; February, $16,100.49; March, $14,217.84; April, $25,457.52; May, $19,291.99; June, $21,427.27; July, $10,912.25; August, $8751.40; September, $11,652.60; October, $24,291.19; November, $35,227.20; December, $24,279.80.

No goods were returned by customers.

An inventory is taken December 31, showing a stock on hand figured at cost price of $9,892.75.

Open a Purchases and a Sales account, record the above items, reckon the cost of goods sold and the gross profit on sales, and close the two accounts.

Exercise C

A merchant had a stock of goods on hand at the beginning of a certain period of $28,725.80; during the period he purchased goods to the amount of $272,452.69, while his sales amounted to $348,524.27; an inventory taken at the close of the period showed a stock of $19,482.90.

The following are required:

(*a*) Cost of goods sold.

(*b*) Gross profit on sales.

(*c*) Rate of profit on sales; on cost of sales.

To find the rate of gross profit on sales:

If cost of sales is used as the basis for determining the rate of profit, divide the gross profit on sales by the cost of goods sold.

If the sales is used as a basis, divide the gross profit by the net sales.

The result in per cent should be carried to two or three decimal places.

Exercise D

A merchant had on hand January 1 a stock of goods of $34,629.70; during the year he purchased goods to the amount of $462,715.80, and his sales were $615,471.65. He returned goods during the year amounting to $1951.60, and goods withdrawn for his own personal use and for sales to employees at cost amounted to $3457; customers returned goods during the year and he allowed rebates amounting to $614.29. His inventory December 31 amounted to $31,400.50.

The following are required:

(*a*) Net purchases.

(*b*) Net sales.

(*c*) Cost of goods sold.

(*d*) Gross profit on sales.

(*e*) Rate of profit on sales; on cost of sales.

Exercise E

A furniture dealer paid the following freight bills on goods which he purchased from January 1 to June 30: January 5, $416.20; February 3, $161.50; March 7, $227.25; April 8,

$336.80; May 5, $427.52; June 4, $251.76. He owns an automobile truck used for carrying goods from the freight depot to his store and for making local deliveries to customers. The expenses of running the truck during this period amounted to $917.65, of which he estimates that 20 % was applicable to goods bought. He received the following rebates from the railroad companies during the period, covering overcharges, breakage, etc.: April 15, $72.20; June 3, $27.49.

Set up a Freight and Cartage account from the above items, and close the account into the Purchases account.

EXPENSE ACCOUNTS

In order that a careful analysis of a business may be made, it is necessary to provide for a proper classification of the various expenses involved in carrying on the business.

The more common expenses of a business are rent, or real estate expenses, if property is owned; wages and salaries of store and office employees; stationery and postage; advertising; delivery expenses; fuel and light; telephone; traveling expenses; and all other expenses incurred for the benefit and advancement of the business.

These expenses admit of the following general classification:

1 Selling expenses.
2 General expenses or administrative expenses.
3 Real estate expenses (if property is owned).

Selling expenses and general or administrative expenses may be subdivided into various other classes if the size of the business and the volume of such expenses justify it. For example, separate accounts may be kept with Advertising, Delivery Expenses, Salesmen's Salaries and Expenses, Freight and Cartage Outward, Rent, Stationery and Postage, etc.

A detailed classification of expense accounts will be left until the more advanced stages of the work are reached, only the three general accounts given above being discussed at this time.

Selling Expenses

Debit:	Credit:
With expenses incurred directly in the sale of merchandise, including wages of clerks, advertising, salesmen's salaries and expenses, delivery expenses, etc.	With any rebates or with anything which may be realized from items previously charged to this account.

The *balance* is always a debit and shows the total expenses of this class.

General Expenses

Debit:	Credit:
With all expenses incurred in carrying on the business which are not carried in special accounts. These may include rent, stationery, postage, office supplies, telephone, fuel, light, salaries and wages of office help, repairs to equipment, etc. If desired, a further classification may be made; for example: separate accounts may be opened with Office Supplies, Insurance, Rent, etc.	With rebates or returns from items formerly charged to this account.

The *balance* is always a debit and represents the total of the general or sundry expenses of the business.

Real Estate Expenses

Debit:	Credit:
With expenses due to the ownership of real estate used for business purposes, including taxes, insurance, water rent, repairs, etc.	There would be no credits to this account unless some adjustment is necessary or some rebate or allowance made on account of expenses charged to the account. If any regular income is derived from property used mainly for business purposes, such as from renting a floor or office, a separate account with such income should be opened.

The balance is always a debit and represents the expenses of maintaining the real estate. This is equivalent to the rent which one would pay who did not own property.

The following is a model General Expense account, showing how it is closed at the end of the month:

General Expense

19—				19—			
Jan.	1	Repairs	63 75	Jan.	31	Profit & Loss	206 80
	7	Office wages	41 2 80				
	11	Postage	32				
	14	Office wages	41 2 80				
	20	Stationery	57 50				
	21	Office wages	41 2 80				
	28	Office wages	41 2 80				
	31	Telephone	24				
	31	Electricity	37 75				
	31	Manager's salary	200				
			206 80				
			206 80				206 80

FURNITURE AND FIXTURES ACCOUNT

One of the assets of a business consists of the furniture, fixtures, and equipment of all kinds which are needed in serving the customers properly and in equipping the offices in such a manner that the administrative and clerical work may be performed in an efficient manner.

To show the investment of the business in such equipment, an account is kept with purchases of this class. Such an account appears under the titles of Furniture and Fixtures, Furniture and Furnishings, Furniture and Equipment, or Office Furniture. In this book the title Furniture and Fixtures is adopted, the function of such an account being expressed as follows:

FURNITURE AND FIXTURES

Debit:	Credit:
With the cost of furniture and equipment purchased for use in conducting the business. Included under this heading are desks, chairs, tables, counters, shelves, filing cabinets, safe, cash register, adding machines, typewriters, etc.	With the *cost* of furniture and equipment sold, discarded, or exchanged. (The excess of cost over selling price, or over the value at which an article of furniture is taken in exchange, or the entire cost if a discarded piece of equipment, is charged to a profit and loss account or to a Reserve for Depreciation account.)

The *balance* is always a debit showing the cost of furniture and fixtures on hand, and is an asset. The account is balanced at the end of a fiscal period and the balance carried forward into the next period as an inventory.

Exercises for the Student

EXERCISE A

The following expenses were incurred by Joseph C. Lincoln in carrying on his business for the month of March.

1 Newspaper advertising, $280.50.
3 Rent for March, $500.
5 Bill for printing letter heads, bill heads, etc., $54.
7 Store wages, $436.80; office wages, $64.50.
10 Postage, $25.50.
14 Store wages, $436.80; office wages, $64.50.
18 Coal, 20 tons at $7.50.
21 Store wages, $436.80; office wages, $64.50.
24 Bill for general office supplies, $32.45.
28 Store wages, $436.80; office wages, $64.50.
31 Telephone, $6.50; electricity, $39.60; gas, $14.75; laundry, $10.75; repairs to store fixtures, $18.25; salary which Lincoln allows himself as manager, $400; bill for duplicate sales slips, $52.60.

Open expense accounts to take care of the above items and close the accounts as of March 31. Use the explanation space of the ledger account.

EXERCISE B

George W. King's expenses for April were as follows:

4 Office wages, $1562; store wages, $1267.50; salesmen's salaries, $350; salesmen's traveling expenses, $189.25.
7 Freight prepaid on goods billed to H. C. Frazer, $28.76.
11 Office wages, $1562; store wages, $1275; salesmen's salaries, $350; traveling expenses, $227.65.
13 Insurance on building used for business purposes, $92.50.
18 Office wages, $1562; store wages, $1275; salesmen's salaries, $350; traveling expenses, $201.20.
20 Water rent, $26.25; repairs to building, $162.80.
25 Office wages, $1562; store wages, $1275; salesmen's salaries, $350; traveling expenses, $174.22.
28 Bill for stationery and office supplies, $162.80.

30 Telephone, $30; telegrams, $12.65; collection charges on checks deposited, 60¢; electricity, $90.70; gas, $14.82; towel supply, $20; King's salary as manager, $500.

Open the expense accounts required to show a proper classification of the above items, and close the accounts as of April 30. Use the explanation space.

Exercise C

The following miscellaneous purchases and items of expense are taken from the books of Harold W. Smith, a retail merchant. They are to be recorded in the month of June under accounts which show their proper classification. The explanation space in the ledger is to be used. The accounts are to be closed at the end of the month.

1 Legal expenses, $200.
2 Advertising in daily papers, $312.75.
5 Printing of bulletin of a special sale, $75.
7 Purchased typewriter costing $100; supplies for the same, $3.75.
9 Cost of making and erecting electric sign in front of store, $125.
11 Lettering name on show windows of store, $37.50.
12 Purchased cash register costing $350; pencil sharpener, $3; three waste paper baskets, $3.75.
18 Purchased rug for private office, $58.
20 Telegrams, $3.50; postage, $25.
22 A customer used office telephone for a long distance call, paying cashier for the cost of the call, 75¢.
24 Smith's expenses to New York for purpose of buying new goods, $82.50.
25 Purchased new desk for manager's office, $100.
26 Photographer's bill for making picture of front of store, $10.
28 Rent for June, $500.
29 Total pay roll for month as follows: store, $1350; office, $320; manager's salary, $250.
30 Telephone, $20; electricity, $65; towel supply, $10; sales of stamps for month to employees as reported by cashier, $1.60; stationery and general office supplies, $24.35.

Exercise D

In this exercise and the one following, accounts are to be opened, as before, to record the debit and the corresponding credit for each transaction given, thus showing the two-fold nature of the transaction and the corresponding effect upon the proper ledger accounts.

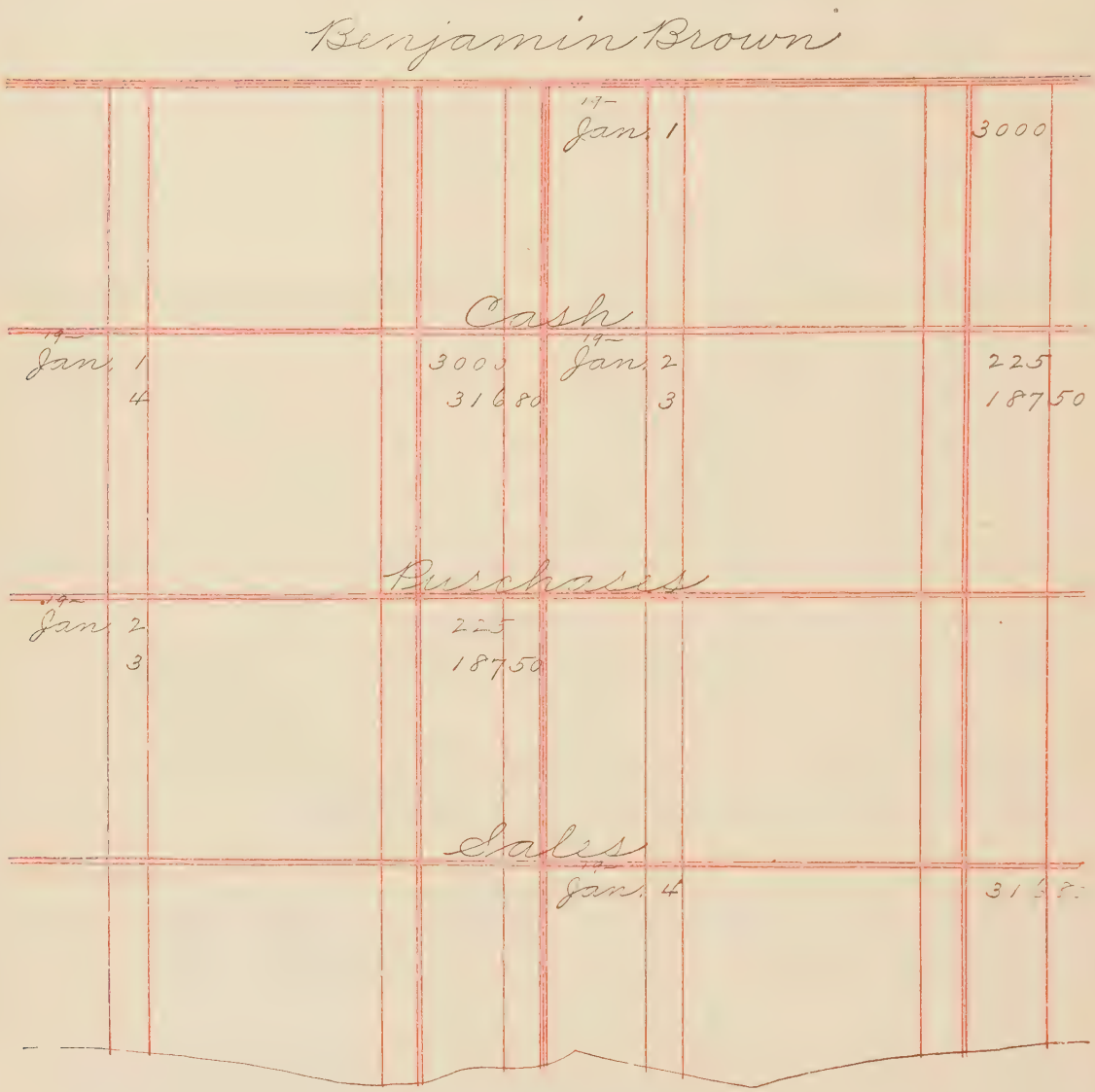
The transactions given in this exercise involve the use of accounts with the proprietor, Cash, Purchases, and Sales. One-half of a page should be allowed for each, and the accounts opened in the order given.

January 1 Benjamin Brown invested $3000 cash in a retail business.

As cash has been received, the Cash account is debited for $3000 according to the rules applying to this account; following the rules applying to the proprietor's account, Benjamin Brown is credited with his investment.

2 He buys merchandise for cash amounting to $225.

In this transaction and in those that follow the student is required to analyze the transaction into the proper debit and credit and make proper record thereof. The recording of the first four transactions is illustrated as follows:



3 Brown buys, for cash, merchandise amounting to $187.50.
4 He sells, for cash, merchandise amounting to $316.80.
5 He buys, for cash, merchandise amounting to $368.75.
6 He sells, for cash, merchandise amounting to $420.
8 He sells, for cash, merchandise amounting to $165.25.
9 He buys, for cash, merchandise amounting to $572.50.
10 He sells, for cash, merchandise amounting to $279.45.
11 He makes an additional investment of $500.
12 He sells, for cash, merchandise amounting to $630.
13 He buys, for cash, merchandise amounting to $450.70.
14 He withdraws for personal use, $100 in cash; merchandise, $75.

Exercise E

The following transactions are to be classified under accounts with the proprietor, Cash, Purchases, Sales, General Expense, C. B. Rogers, William Cooper, and John A. White, one half page to each.

February 1 Richard Strong invests $7500 cash in a certain business.
2 He rents a storeroom, paying $200 rent for February.
3 He buys, for cash, merchandise amounting to $2620.35.
4 He buys, for cash, merchandise amounting to $1325.60.
5 He sells, for cash, merchandise amounting to $1575.
6 He buys, on account from C. B. Rogers, merchandise amounting to $1600.
8 He sells, for cash, merchandise amounting to $712.65.
9 He sells, on account to William Cooper, merchandise amounting to $337.50.
10 He sells, on account to John A. White, merchandise amounting to $486.
11 He buys, on account from C. B. Rogers, merchandise amounting to $275.
12 He pays $16.80 for office stationery and supplies.
13 He sells, on account to John A. White, merchandise amounting to $962.30.
15 He sells, for cash, merchandise amounting to $365.20.
16 He buys, for cash, merchandise amounting to $157.80.
17 He buys, on account from C. B. Rogers, merchandise amounting to $319.
18 He sells, on account to William Cooper, merchandise amounting to $347.
19 He sells, on account to John A. White, merchandise amounting to $285.
20 The proprietor withdraws $100 cash for personal expenses.

REVIEW QUESTIONS

General Principles and Functions of Accounts

1 What is the object of bookkeeping?
2 Define double entry bookkeeping. Upon what general principle is it based?
3 What is an account? How may accounts be classified in a general way?
4 What is a book of original entry? Define journalizing. Give a general rule for journalizing.
5 Define the ledger.
6 Define profit; income; loss; expense.
7 Define assets. Into what general classes are assets divided?
8 Define liabilities. What would the difference between assets and liabilities represent?
9 What does one need to know about a particular account in order to handle it intelligently?
10 What is meant by the "function" of an account?
11 What does the term "cash" include?
12 Give the functions of the Cash account.
13 What are personal accounts? Define credit in a business sense.
14 Define debtor; creditor; accounts receivable; accounts payable.
15 Give the rules for debiting and crediting personal accounts.
16 Define promissory note. Name the parties to a note.
17 What is meant by negotiability?
18 What is the twofold effect of an indorsement? What forms of indorsement are there, and what is the effect of each?

19 Is there any advantage in holding a note rather than a book account against a debtor? Explain fully.

20 Describe the process of obtaining a loan at a bank.

21 What is the difference between Notes Receivable and Notes Payable? Give the rule for handling both accounts.

22 What is the difference between a proprietor's net investment and his net worth?

23 What does the Proprietor's Capital account show? When would it be advisable to keep a Proprietor's Personal account as well? With what would such an account be debited and credited?

24 What is meant by the term "merchandise"?

25 Give the functions of the Purchases account; of the Sales account.

26 What is an inventory? In valuing the inventory, should cost or selling price be used? If the market price was lower than cost, what price should be used? If higher?

27 How is the cost of goods sold obtained?

28 What is gross profit? How obtained?

29 How is freight and cartage on goods bought handled? On goods sold? Explain the difference in treatment.

30 How is the rate of gross profit on sales determined (*a*) if cost of sales is the basis; (*b*) if the total sales is the basis? Explain the difference.

31 What is an expense? Give a general classification of expense items. What is the purpose of subdividing expense account?

32 With what items is Selling Expense account charged? General Expense?

33 What is the reason for keeping a separate account for Real Estate Expense?

JOURNALIZING

As previously explained, the elementary book of original entry is the journal. While in practice the journal is never used as the only book in which transactions are recorded, yet the elementary principles underlying business transactions are probably best understood when expressed in the form of journal entries.

Journalizing is the process of determining from the reading of a transaction the accounts to be debited and credited, and of recording these debits and credits in the journal. It is the *fundamental process* in the study of bookkeeping, and is of equal importance with the fundamental processes and principles that are found in the study of any other subject. Journalizing involves a careful analysis of the transaction, a proper classification of the accounts affected, and the recording of the debits and credits pertaining thereto in a concrete form.

In the exercises that immediately follow, all transactions are recorded in the journal, thus giving the practice so essential in building up a thorough mastery of the principles upon which the practice of bookkeeping is based. While doing this work, it should be clearly understood that no attempt is as yet made to keep books as they are kept in practice. That stage in the study of the subject has not yet been reached. We are still concerned with a study of fundamental principles and with practice in the application of these principles. From the knowledge of the principles of the subject acquired in this manner, the methods and practices of modern bookkeeping, as they are found in actual business, will later be developed.

In the next group of exercises no specific instructions will be given except such as are necessary to explain new principles as they arise. The ledger accounts employed are those which have already been studied in detail. Reference should be made by the student whenever necessary to the functions of these accounts and to the illustrations previously given of model accounts and of a model journal. In the study of each transaction the student should keep in mind the principle of the "equation of exchange" upon which double entry bookkeeping is based. The journal entry required for each transaction is determined from the *general rules* applying to debits and credits, given on page 12. These rules, supplemented by the special rules which apply to particular accounts, should be constantly kept in mind and each transaction interpreted in accordance with them.

Below is an illustration of a model journal with daily transactions recorded therein in proper sequence. For explanation of the ruling of a journal and the use made of each ruled space, see pages 11 and 12. The date is written in full at the top of each page, the current year being used, the day of the month on which a transaction occurs being placed between each entry and the one following, in the blank space which separates the entries. The folio column on the left is used when the entries are posted to the ledger, a process which will be explained later. Particular attention should be given to the explanation of each transaction which, while it should be expressed in as few words as possible, should omit no important point.

Exercise 1

Make journal entries for the transactions given in Exercise D on page 35.

Exercise 2

Make journal entries for the transactions given in Exercise E on page 37.

Exercise 3

Make entries for the transactions on page 41 on journal paper or in a journal blank. The transactions occur in March, the numbers to the left indicating dates. The journal pages should be numbered, the number being placed on the outside corner of each page.

January 1, 19—

Cash			3000	
A. H. Harper, Capital				3000
A. H. Harper has commenced the Flour and Grain business, investing cash $3000.				
2				
General Expense			75	
Cash				75
Paid rent of store for Jan.				
3				
Purchases			800	
Cash				800
Bot of A. H. Roe & Co. for cash				
100 bbl. Flour		8.00		
4				
Cash			450	
Sales				450
Sold W. D. Leach for cash				
50 bbl. Flour		9.00		
5				
J. B. Allen			225	
Sales				225
Sold on account				
25 bbl. Flour		9.00		
6				
A. H. Harper, Personal			50	
Cash				50
Drew for private use				
8				
Purchases			200	
J. Grant & Co.				200
Bot. on account				
400 bu. Oats		50		

January 9, 19–

A. B. Frye			338	
Sales				338
Sold A. B. Frye Terms: 20 day note				
25 bbl. Flour	9.20	230.		
150 bu. Oats	.72	108.		
9				
Notes Receivable			338	
A. B. Frye				338
Received note at 20 days, due Jan 29, in payment of bill of this date				
11				
Purchases			571	
Garland & Co.				571
Bot. of Garland & Co. Terms: 45 day note				
50 bbl. Flour	8.00	400		
150 bu. Rye	1.14	171		

1 Henry Fisher invests $5000 cash in a wholesale drug business.

3 He purchases furniture and fittings with which to equip his salesrooms, paying $2000 cash for the same.

4 He purchases the necessary office supplies at a cost of $145, paying cash for the same.

6 He purchases, for cash, merchandise amounting to $387.

9 He sells, for cash, merchandise amounting to $162.

10 He sells, for cash, merchandise amounting to $265.

12 He purchases, from A. W. Lyman on account 30 days, merchandise amounting to $1921.

15 He sells, for cash, merchandise amounting to $520.

18 He sells, to Charles Luce on account 60 days, merchandise amounting to $168.50.

19 He purchases, from H. J. Whitmore on account, merchandise amounting to $367.80.

22 He pays $200 rent for March in cash.

23 He sells, on account to Thomas Joyce, merchandise amounting to $210.

25 He buys, for cash, merchandise amounting to $140.

26 He sells, for cash, merchandise amounting to $840.

29 He sells, for cash, merchandise amounting to $765.

31 He pays cash expenses for the month amounting to $275.

Exercise 4

Journalize the following transactions:

January 1 I (your name) engaged in the Flour and Grain business, investing cash, $4000.

2 Paid J. C. Smith $75 for rent of store for this month.

2 Bought of Scrantom & Wetmore books and stationery for office use, for which I paid cash, $15.

3 Bought of the Upton Coal Co., for cash, for use in store, 4 tons of coal at $7 per ton; total, $28.

3 Paid $13.75 for 500 stamped envelopes.

4 Bought of P. D. Hamlin, for cash, 50 bbl. flour at $8 per bbl., 260 bu. oats at 50¢ per bu.; total, $530.

4 Bought of Charles A. Hubbard, for cash, 600 bu. oats at 50¢ per bu.; total, $300.

4 Bought of M. F. Lynch, for cash, 200 bu. corn at 85¢ per bu.; total, $170.

4 Bought of H. P. Dennis & Co., for cash, 50 bu. rye at $1 per bu., 25 bbl. flour at $8.20 per bbl.; total, $255.

5 Sold Wilson Bros., for cash, 50 bu. rye at $1.20 per bu., 25 bbl. flour at $9 per bbl.; total, $285.

6 Sold H. A. Harvey, for cash, 200 bu. oats at 70¢ per bu.; total, $140.

6 Sold W. D. Menter, for cash, 100 bu. corn at 90¢ per bu.; total, $90.

6 Sold J. B. Hamill, for cash, 100 bu. oats at 65¢ per bu., 50 bu. corn at 90¢ per bu.; total, $110.

POSTING

Posting, as has been explained, consists in transferring the debits and credits from the journal and other books of original entry to accounts in the ledger. By this means, the debits and credits to each account from all sources and on all dates are brought together in the ledger and the condition of the account is shown.

There is no stated time at which posting is done, but in practice the work should be kept up to date as nearly as possible, in order that a trial balance may be taken promptly at the close of each month. As a rule, it is work which is done at odd times when the bookkeeper is not otherwise occupied.

Paging is a part of the process of posting and consists of: (*a*) placing in the folio or page column of the ledger the number of the page in the book of original entry from which the item came, together with the initial letter of said book; (*b*) placing in the folio column in the book of original entry the number of the ledger page on which the account appears. It is important that each item be paged in both books at the time it is posted.

Check posting is the process of reviewing the postings made during a certain period, in order to make sure of the correctness of the postings prior to taking a trial balance, or as a means of locating an error in a trial balance. If the item is found to be correctly posted, a small check mark (√) is usually made in both the ledger and the book of original entry on the double line which bounds the money column on the left and on a line with the item. This review of the postings is thus clearly indicated.

Preparatory to posting the transactions in Exercise 4, accounts should be opened on ledger paper, or in a ledger blank, with the proprietor, Cash, General Expense, Purchases, and Sales. Allow one-half page to each account. When an account is opened in any position on the page other than at the top, double lines should be ruled midway between two blue lines and the name of the account written on the blue line directly above.

The routine of posting may be performed in any one of the three following ways:

1 By first posting all debts in the journal to the debit side of their respective accounts, then posting all credits to the credit side of the proper accounts.

2 By posting alternate debits and credits, thus completing the posting of each entry.

3 By posting all the debits and credits to one account at a time, regardless of where they appear in the journal.

The first method is the safest one for the beginner, although the third method consumes less time and may be adopted when one has become sufficiently familiar with the process of posting.

To economize time, one should make every effort to hold in mind all facts relating to the item to be posted until they are recorded on the proper side of the ledger account, thus avoiding the unnecessary work of being obliged to refer to the original entry two or three times while an item is being posted.

Many bookkeepers find it easier to post in reverse order by entering in the ledger: first, the amount of the debit or credit; second, the folio; third, the explanation, if any is desired; and fourth, the date.

The entries in this exercise are now to be posted in accordance with the instructions given.

THE TRIAL BALANCE

A *trial balance* is a periodical test made of the ledger in order to prove as far as possible the clerical accuracy of the bookkeeper's work.

As each entry is made up of equal debits and credits which are posted to opposite sides of the ledger, it naturally follows that the sum of all debit postings should exactly equal the sum of all credit postings, assuming that all entries have been posted. Expressed in another way, this illustrates the familiar axiom, "If equals are added to equals, the sums are equal." Hence, the ledger should always be in balance, and to prove that it is so, a trial balance is usually taken at the end of each month.

The trial balance is one of the important advantages of double entry bookkeeping, providing not only a proof of the accuracy of the clerical work, but also a periodic summary of all transactions. As a proof of the accuracy of the bookkeeper's work, however, the trial balance is not infallible, in that no error which affects both sides of the ledger alike is revealed. That is, a mistake must disturb the equilibrium of the ledger before it would be detected by means of the trial balance.

The form and arrangement of a trial balance is illustrated on the following page.

A trial balance may now be taken from the ledger in Exercise 4, the work being done as follows:

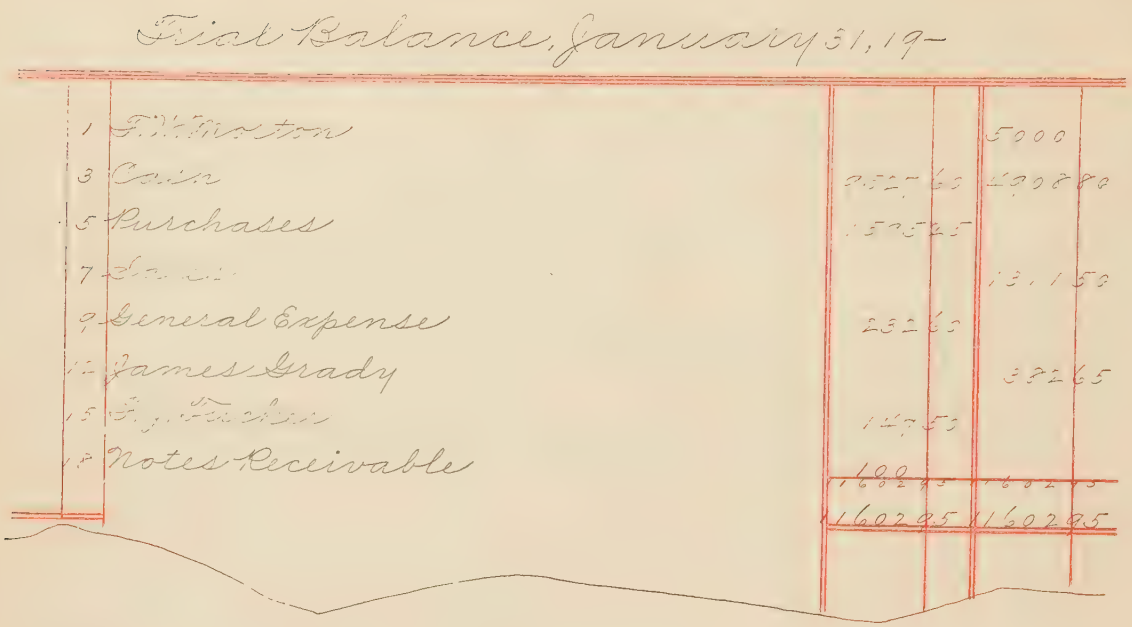
(1) Foot in small pencil figures the postings to the debit and credit sides of each account.

(2) At the top of a sheet of journal paper or in a journal blank, write the heading, "Trial Balance, January 6, 19—." List the accounts beneath in the order in which they occur in the ledger, placing the number of the ledger page on which the account appears in the folio column, on a line with the account.

(3) On a line with the name of each account, enter the total of the debit and credit sides of the account as shown by the pencil footings in their respective money columns.

(4) Rule the trial balance as shown in the illustration.

A trial balance may show the footing of each side of each ledger account, or only the difference between the two sides of the account may be carried to the trial balance. Either method gives the same proof of the ledger, but the latter method is more generally followed. However, it is well for the student to have practice in both methods.



Suggestions for Finding Errors in a Trial Balance

1 Verify additions of both columns of the trial balance to make certain that the error was not made in adding the trial balance.

2 Find the exact difference between the two sides of the trial balance; this will usually suggest the next step to be taken.

3 If the difference is in round numbers, as ten cents, one dollar, ten dollars, one hundred dollars, etc., the probability is that the error is in addition or in subtraction in the ledger or in the summaries made in some book of original entry preparatory to posting. Hence, all such additions and subtractions should be verified.

4 If the difference is an odd number of dollars or in dollars and cents:

(*a*) Look through the original entries for an amount equal to the difference, in which case the item may not have been posted; or look for an item equal to one-half the difference, in which case the item may have been posted to the wrong side of the account.

(*b*) See that the balances have been transferred correctly from the ledger to the trial balance. The balance of an account in the ledger may have been omitted or placed in the wrong money column of the trial balance.

(*c*) If the difference is exactly divisible by 9, the error may be due to transposing figures in posting or in transferring the amounts to the trial balance. For example, $76.50 may have been written as $67.50.

(*d*) If the difference is exactly divisible by 99, the error may be due to a transplacement of figures. For example, 50¢ may have been posted as $50.

(*e*) See that the balances of all accounts were properly brought down when the ledger was last closed.

5 If the error is not discovered by any of these methods, or if there appears to be a transposition or a transplacement of figures, carefully check all the postings, concentrating the attention on every item and indicating the ones examined by use of a small check mark. This should result in locating the error. If one checking does not suffice, go over the postings a second time, or a third time, if necessary.

A *proof trial balance* is a trial balance taken after the ledger has been closed to prove that the ledger is in balance at the beginning of the next period. It is often called a " post closing " trial balance.

Corrections in Books of Original Entry. — As a means of avoiding errors, the student should study the transaction thoroughly and decide upon the entry to be made before writing any part of the entry. In this way, if thought precedes action, there should be very few mistakes made. Next in importance to avoiding mistakes, however, is the ability to correct mistakes in a proper manner. As a general rule, no erasures should be made in books of original entry.

If an error has been made in the account to be debited or credited in some entry and the error is discovered before the entry is posted, a line should be drawn through the incorrect debit or credit and the correct item written above, or to the right, if there is room. Likewise, if the error is in the amount debited or credited, a line may be drawn through the amount and the correction written above.

If an incorrect entry has been posted to the ledger before the mistake is discovered, it is advisable to let the old entry and posting stand and make an adjusting or correcting entry in the journal under the date on which the mistake is discovered, referring back to the incorrect entry. A notation should also be made at the place of the incorrect entry, referring to the page on which the correction may be found.

For example, a check is received from Henry Jones for $500 in payment of his note which is due. The bookkeeper makes the following incorrect entry:

Cash	500.	
Henry Jones		500.

The error is not discovered until after the incorrect entry has been posted to the ledger. Instead of changing the original entry, therefore, a correcting entry is made in the journal as follows:

Henry Jones	500.	
Notes Receivable		500.

with an explanation, " To correct error made in the entry on page — of the cash book on the 00th — of crediting Henry Jones instead of Notes Receivable for the cash received in payment of his note." When posted, this entry cancels the incorrect credit to Jones's account and gives the Notes Receivable account proper credit.

Exercise 5

Explanations of Journal Entries. — The student is again reminded of the importance of a complete and clearly worded explanation for each transaction, as the written explanation often affords the only available information regarding the transaction. The explanation does not need to be expressed in any particular form, much being left to the judgment of the bookkeeper. The following explanations for certain standard types of transactions are suggested to aid the beginner on this important point:

(*a*) When a new business is begun:

Full particulars should be given regarding the establishment of the business, nothing of historical value being omitted. If a business is acquired by purchase, the terms of purchase should be fully stated. In many cases this historical sketch or introduction would be of such length that it might better be written in full on the first page of the journal prior to the making of any entries.

(*b*) When merchandise is bought or sold for cash:

Bought of (or sold to) (name of firm) for cash, the following goods:

500 bu. Corn @ 72¢	$360
100 bu. Wheat @ $1	100
Total	$460

(*c*) When merchandise is bought or sold on account:

Bought (or sold) the following goods:

(Items)

Terms: On account, or the terms expressed as given.

(*d*) When cash is received or paid on account:

Received (or paid) to apply on account of invoice (or bill) of a certain date, giving date of invoice or bill.

If in full payment of an invoice or a bill, the explanation should so state.

Standard abbreviations may be used, for example: on account is written *on a/c*; January 15, 1919, is written *1/15/19*.

The word "invoice" is commonly used to apply to an itemized statement of goods bought; the word "bill" to apply to an itemized statement of goods sold.

(*e*) When a promissory note is received or issued:

Received (or gave) note at 60 days, bearing interest at 6% (or without interest), to apply on invoice (or bill) of June 5. Date of note, July 10; due September 8.

(*f*) When an expense bill is paid:

State full particulars regarding such a bill, and if several bills are included in one entry, itemize each.

(*g*) For an entry of an exceptional character:

An entry which does not conform to a standard type, or one which is exceptional or unusual should be explained with particular care, so that there may be no doubt in the mind of the reader as to what the nature of the transaction was.

Make the journal entries required for the following transactions, using journal paper or a journal blank.

FEBRUARY

February 1 I (your name) engaged in the Flour and Grain business, at 276 Fulton St., Rochester, N. Y., investing cash, $2500.

2 Paid Henry Jones rent of store for two months, in cash, $100.

3 Bought of R. C. Thompson, for cash, 100 bbl. flour at $8 per bbl.; total, $800.

5 Sold A. H. Warren, for cash, 25 bbl. flour at $9 per bbl.; total, $225.

6 Bought from Winter Bros., for cash, 300 bu. of corn at 70¢ per bu.; total, $210.

7 Sold Wm. Archer & Co., for cash, 25 bbl. flour at $9 per bbl., 100 bu. corn at 80¢ per bu.; total, $305.

8 Bought of Arthur McMillan, for cash, 50 bbl. flour at $7.80 per bbl., 650 bu. oats at 60¢ per bu.; total, $780.

9 Paid cash for clerk hire, $15, for insurance, $10; total, $25.

10 Sold E. H. French & Co., for cash, 20 bbl. flour at $9 per bbl., 74 bu. oats at 64¢ per bu., 100 bu. corn at 80¢ per bu.; total, $307.36.

12 Bought of John C. Cornell, for cash, 100 bu. rye at $1 per bu.; total, $100.

14 Bought of A. J. Lane, on account, 30 days, 133 bu. oats at 62¢ per bu.; total, $82.46.

15 Bought of W. H. Stevens, on account, 320 bu. oats at 60¢ per bu.; total, $192.

15 Bought of F. A. Smith & Co., on account, 10 days, 150 bu. rye at $1.10 per bu.; total, $165.

16 Sold W. A. Scott on account, 10 days, 100 bu. oats at 72¢ per bu.; total, $72.

17 Sold S. A. Dodge & Co., on account, 60 days, 25 bbl. flour at $9.50 per bbl.; total, $237.50.

17 Sold J. S. Sumner, on account, 250 bu. rye at $1.20 per bu., 250 bu. oats at 72¢ per bu., 270 bu. corn at 90¢ per bu.; total, $723.

19 Sold E. H. French & Co., on account, 10 days, 25 bbl. flour at $9.20 per bbl., 100 bu. oats at 72¢ per bu., 50 bu. of corn at 90¢ per bu.; total, $347.

20 Sold E. B. Adams, for cash, 200 bu. oats at 76¢ per bu.; total, $152.

23 Bought of Rice, Miller & Co., on account, 30 days, 125 bu. rye at $1.14 per bu., 300 bu. corn at 70¢ per bu.; total, $352.50.

24 Sold Roberts Bros., for cash, 100 bu. rye at $1.20 per bu.; total, $120.

26 W. A. Scott has paid you $72 cash in full settlement of his account.

26 Received cash of J. S. Sumner, $100, to apply on account.

27 Paid A. J. Lane cash, $82.46, in settlement of his account to date.

28 Paid W. H. Stevens cash, $100, to apply on account.

28 Received cash of E. H. French & Co., $347, in payment of bill of 19th inst.

28 Sold Emerson & Sons, on account, 50 bu. corn at 90¢ per bu., 30 bbl. flour at $9 per bbl., 50 bu. oats at 70¢ per bu.; total, $350.

28 Paid cash for postage and advertising, $12.

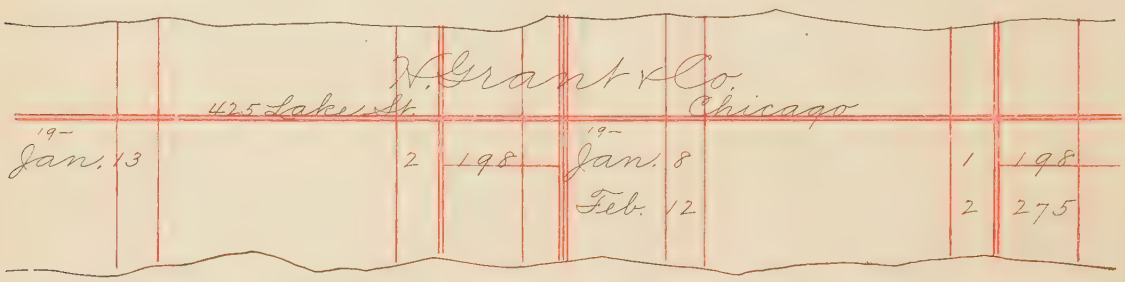
Preparatory to posting, the following accounts are to be opened in the ledger, in the order given; one half of a page is to be allowed to each account, with the exception of those otherwise indicated. Not all of these accounts will be needed for the posting of the February entries, but the March transactions immediately following are a continuation of the February work and it is more convenient to open the accounts for both months at the same time.

The addresses of all persons and firms should be shown, the street address being written above the explanation space on the debit side, and the city and state above the explanation space on the credit side. (See illustrative account with H. Grant & Co., on page 48.)

Proprietor (one page).
Cash (one page).
Purchases (three fourths of a page).
Freight and Cartage (one fourth of a page).
Sales (one page).
General Expense.
Profit and Loss.
Notes Receivable.
William Archer & Co., 742 Center St., Buffalo, N. Y.
S. A. Dodge & Co., 198 Hull St., New York, N. Y.
Emerson & Sons, 275 Eliot St., Rochester, N. Y.
E. H. French & Co., 476 Franklin St., Newark, N. J.
J. B. Fulton, 727 Market St., St. Louis, Mo.
F. W. Garland, 16 High St., Denver, Colo.
Roberts Bros., 492 Conwell St., Harrisburg, Pa.
W. A. Scott, 246 Norway St., Syracuse, N. Y.
J. S. Sumner, 72 Summer St., Erie, Pa.
A. H. Warren, 1260 Mill St., Cleveland, Ohio.
Weston & Hill, 222 Alden St., Auburn, N. Y.

Notes Payable.
H. S. Clough & Co., 1298 Scott St., Syracuse, N. Y.
Charles A. Hill & Co., 20 Pond St., Detroit, Mich.
Kidder & Hill, 50 Mason St., Chicago, Ill.
A. J. Lane, 272 Central St., Boston, Mass.
Rice, Miller & Co., 454 Fort St., New York, N. Y.
F. A. Smith & Co., 27 Lake St., Chicago, Ill.
W. H. Stevens, 654 Boyd St., Minneapolis, Minn.
Warner & Freeman, 424 Ward St., Cleveland, Ohio.

Following the opening of the accounts, the entries for February should be posted and a trial balance taken. All personal accounts which balance should be ruled off as shown in the following illustration:



The accounts to be ruled off at this time are W. A. Scott, E. H. French & Co., and A. J. Lane. Such accounts, together with the accounts to which no postings have been made, are not shown in the trial balance. After the trial balance has been examined, it should be copied in the proper blank book on the page assigned.

MARCH

Continuation of February Business

March 1 Bought of H. S. Clough & Co., on account, 10 days, 100 bbl. flour at $8.10 per bbl., 500 bu. oats at 60¢ per bu.; total, $1110.

2 Sold Wm. Archer & Co., on account, 225 bu. oats at 76¢ per bu., 25 bu. rye at $1.20 per bu.; total, $201.

3 Paid Rice, Miller & Co., cash, $352.50, in payment of invoice of February 23.

3 Received cash of Emerson & Sons, to apply on account, $250.

5 Paid H. S. Clough & Co., cash, on account, $500.

6 Bought of Kidder & Hill on account, 60 days, 500 bu. corn at 80¢ per bu.

7 Paid cash for freight and drayage of flour and grain to date, $15.

8 Sold E. H. French & Co., on account, 10 days, 100 bu. corn at 90¢ per bu., 200 bu. oats at 76¢ per bu.

9 You have withdrawn from the business, for private use, cash, $25.

10 Bought of Kidder & Hill, on account, 30 days, 500 bu. corn at 72¢ per bu., 100 bu. rye at $1.08 per bu.

12 Paid H. S. Clough & Co. cash, $100, to apply on account.

12 Sold F. W. Garland, on account, 25 bbl. flour at $9.20 per bbl.

13 F. W. Garland sends you his note at 10 days without interest, in payment of his bill of the 12th.

13 Sold Wm. Archer & Co., on account, 75 bbl. flour at $9.20 per bbl.

14 Received note at 15 days, without interest, from Wm. Archer & Co., in payment of bill of the 13th inst.

14 S. A. Dodge & Co., who owe you $237.50, have requested you to accept their note at 30 days in payment of the account. This you have done.

15 J. S. Sumner sends you his note at 10 days, dated March 14, to apply on account $250.

16 Sold S. A. Dodge & Co., on account, 300 bu. corn at 88¢ per bu., 25 bbl. flour at $9 per bbl.

17 Bought of H. S. Clough & Co., on account, 50 bbl. flour at $8 per bbl., 250 bu. corn at 70¢ per bu.

19 Sold J. B. Fulton, on account, 200 bu. oats at 76¢ per bu., 100 bu. corn at 85¢ per bu.

19 Bought of Kidder & Hill, on account, 100 bbl. flour at $8 per bbl., 250 bu. corn at 70¢ per bu.

20 Received note at two months without interest from J. B. Fulton in payment for goods sold him the 19th inst.

20 Gave Kidder & Hill note at 10 days without interest in payment for goods bought from them the 19th inst.

20 Bought of Warner & Freeman, on account, 300 bu. corn at 70¢ per bu.

21 Sold A. H. Warren, on account, 25 bbl. flour at $9.20 per bbl., 95 bu. corn at 80¢ per bu.

22 Sold Weston & Hill, on account, 15 bbl. flour at $9 per bbl., 155 bu. corn at 80¢ per bu.

22 Gave Warner & Freeman note at 10 days without interest in settlement of invoice of goods bought from them on the 20th inst.

23 Bought of Chas. A. Hill & Co., on your note at 60 days, 500 bu. oats at 66¢ per bu., 250 bu. corn at 70¢ per bu.

23 Sold Roberts Bros., on account, 15 days, 25 bbl. flour at $9 per bbl.

23 Received note at 30 days, without interest, from A. H. Warren in payment of bill of goods sold him the 21st inst.

23 F. W. Garland has paid his note of 13th inst. in cash, $230.

24 J. S. Sumner has paid his note, due this day, in cash, $250.

26 Received of E. H. French & Co., to apply on account, their note at 30 days for $200.

26 Transferred, by indorsement, A. H. Warren's note of the 21st inst. for $306 to H. S. Clough & Co., to apply on account.

26 Paid cash for clerk hire, $15; for stamps, etc., $2.

27 Gave Kidder & Hill your note at 30 days, for $340, to apply on account.

27 William Archer & Co. paid their note of the 13th inst. in cash, $690.

28 The freight and drayage bills to date are $12; they have been paid in cash.

28 You have taken from the store, for personal use, 2 bbl. flour at $8 per bbl.

29 Bought of A. J. Lane, on account, 300 bu. oats at 64¢ per bu., 100 bu. rye at $1.10 per bu.

29 Paid F. A. Smith & Co. cash, $165, in full of account to date.

29 Received of Wm. Archer & Co. cash, on account, $150.

30 Bought of Rice, Miller & Co., on account, 30 days, 25 bbl. flour at $7.90 per bbl., 200 bu. corn at 70¢ per bu.

30 Sold W. A. Scott, on account, 30 days, 200 bu. oats at 76¢ per bu., 25 bbl. flour at $9 per bbl.

30 You have paid your note of 20th inst., favor of Kidder & Hill, in cash, $975.

31 Bought of F. A. Smith & Co., on account, 30 days, 40 bbl. flour at $7.50 per bbl.

31 You have paid your note, favor of Warner & Freeman, in cash, $210.

The March entries should now be posted to the ledger. As the March work is a continuation of the February work, the same ledger is used, the postings beginning directly beneath the last postings for February.

Before taking the March trial balance, check all postings for March in the manner already explained. All accounts which balance should be ruled according to the instructions at the end of the section on the February work, and such accounts are omitted from the trial balance. The March trial balance should show both February and March figures; that is, in adding the accounts the March postings should be added to the February pencil footings. This applies in all cases where successive monthly trial balances are taken during a fiscal period. The trial balance is cumulative, each balance taken including the figures of all preceding trial balances of a certain period. Only the *difference* between the two sides of each account should be transferred to the trial balance. After the trial balance has been examined, it should be copied in the proper blank book.

BUSINESS AND FINANCIAL STATEMENTS

The construction of financial statements is in many respects the most important phase of bookkeeping. The business man is more interested in the results shown by the bookkeeping system and in the information which the system gives him than he is in the books themselves. The record of business transactions is incidental to the statements and statistics which may be prepared therefrom at certain intervals, showing the profits or losses and the financial condition of the business.

There are two main statements prepared from books kept by double entry. The first, called the *Profit and Loss Statement*, shows the items of profit and loss pertaining to a certain period, classified and arranged in such a manner as to give full and accurate information relating to the trading activities of the business. The final result shown by such a statement is the net profit or loss for the period covered. Other titles often given to this statement are Business Statement, Loss and Gain Statement, Trading and Profit and Loss Statement.

The second statement is the *Balance Sheet*, showing the assets owned by a business as of a certain date, the liabilities or the indebtedness of the business, and the resulting net worth. This statement is also known as the Financial Statement, Statement of Resources and Liabilities, or Statement of Assets and Liabilities. Balance Sheet, however, is the title commonly given to the statement by accountants and business men.

Financial statements are prepared at the close of a fiscal period, thus furnishing the proprietor or officers of a business with a summary of the business transactions for the period and a statement of the financial condition at the close of the period. The final trial balance for the period contains most of the data from which the statements are prepared. In addition to the trial balance, an inventory must be taken to know the value of the goods in stock, this being an asset not shown on the books. Unused supplies of various kinds, such as office stationery, postage, fuel, etc., if of sufficient value may also be inventoried, and certain assets may be revalued, all of which would be taken into account in preparing the statements.

As the trial balance forms the basis of all statement work, the use and function of every account contained in it should be clearly understood. Preliminary to the actual construction of the statements, the trial balance should be analyzed, each item being designated in such a manner as to indicate whether it represents a profit, a loss, an asset, or a liability. This may be done by placing to the left of the folio column of the trial balance, on a line with each ac-

count, the initial letter indicating what the account represents. As an aid in analyzing the trial balance, the following general principles are of importance:

Profits are always credits; losses are always debits.

Assets are always debits; liabilities are always credits.

An account with a debit balance, therefore, represents an asset or a loss; an account with a credit balance, a liability or a profit. The only exception is the account with the proprietor, or any account or accounts which represent an ownership interest, such accounts constituting some element of net worth.

The statements shown on pages 52 and 53, prepared from the following trial balance, illustrate a simple form of Profit and Loss Statement and Balance Sheet. The accounts are identical in kind with the accounts shown in the March trial balance.

Trial Balance, December 31, 19—

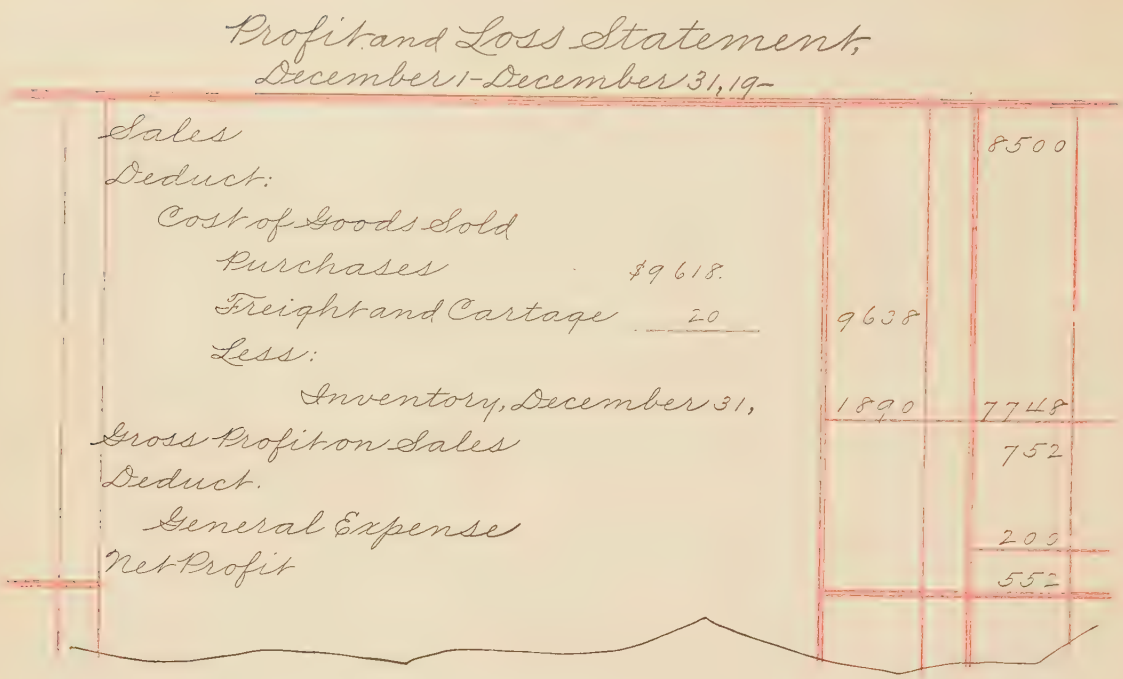
1	John Smith, Capital	100	5000
3	Cash	3512	
5	Purchases	9618	
7	Freight & Cartage	20	
9	Sales		8500
12	General Expense	200	
15	Notes Receivable	800	
17	Thomas Bliss	750	
19	Henry Rose	350	
21	Charles Lee	280	
25	Notes Payable		1000
29	Robert Wilson		630
30	William Brown		320
31	W. A. Noonan		180
		15630	15630

Inventory, December 31, 19—, $1890.

Comments on Model Statements

1 The heading of the Profit and Loss Statement should always show the period covered. Instead of showing the dates at the opening and the close of the period, however, the period may be indicated as follows: " for the Year (or period of different length) Ended Dec. 31, 19—."

The heading of the Balance Sheet shows only the date on which it was prepared. Unlike the Profit and Loss Statement, which is a review of what took place during a certain period, the Balance Sheet shows only the financial condition at the close of that period.



2 The statements should be prepared in a formal and dignified style, with careful attention to punctuation, capitalization, ruling, indentations, the use of the dollar sign in connection with the first amount in a tabulation, if placed outside a ruled money column, etc. The words "Deduct," "Less," and "Add," and any phrase used as a sub-heading, as "Cost of Goods Sold," should be followed by a colon.

3 The individual personal accounts are not listed in the Balance Sheet as they are in the trial balance. Instead, accounts with debtors are added and shown among the assets as Accounts Receivable; accounts with creditors are added and shown among the liabilities as Accounts Payable.

4 Assets are usually listed in a balance sheet for a mercantile business in the order of their ready conversion into cash, the usual order of arrangement being as shown in the model given. Liabilities are shown in the order in which provision would need to be made for their payment.

5 In case customers have returned goods, it would in most cases be well to show total sales, the credit footing of the Sales account, in the Profit and Loss Statement, and show the returns, the total of the debits to Sales, as a deduction therefrom, the remainder being designated as "net sales." This would also apply to returns and allowances on goods purchased by the business.

6 The Balance Sheet is so named because it gives expression to the equation existing between the various members in accounts kept by double entry, such equation being expressed as follows:

Assets = Liabilities + Proprietorship;

or, expressed differently,

Assets − Liabilities = Proprietorship.

The clerical accuracy of the Balance Sheet is therefore proved if the total assets in the first section equal the total liabilities plus net worth in the second section.

The model Balance Sheet given is prepared in "statement form," assets being shown first, followed by the liabilities and net worth. While this arrangement is more convenient in case

Balance Sheet, December 31, 19–

Assets			
Cash		3512	
Notes Receivable		800	
Accounts Receivable		1380	
Merchandise Inventory		1890	
Total Assets			7582
Liabilities and Net Worth			
Notes Payable		1000	
Accounts Payable		1130	
Total Liabilities			2130
Net Worth:			
John Smith, Investment	$5000.		
Less: Drawings	100.		
Net Investment		4900	
Add:			
Net Profit December 1–December 31		552	5452
Total Liabilities and Net Worth			7582

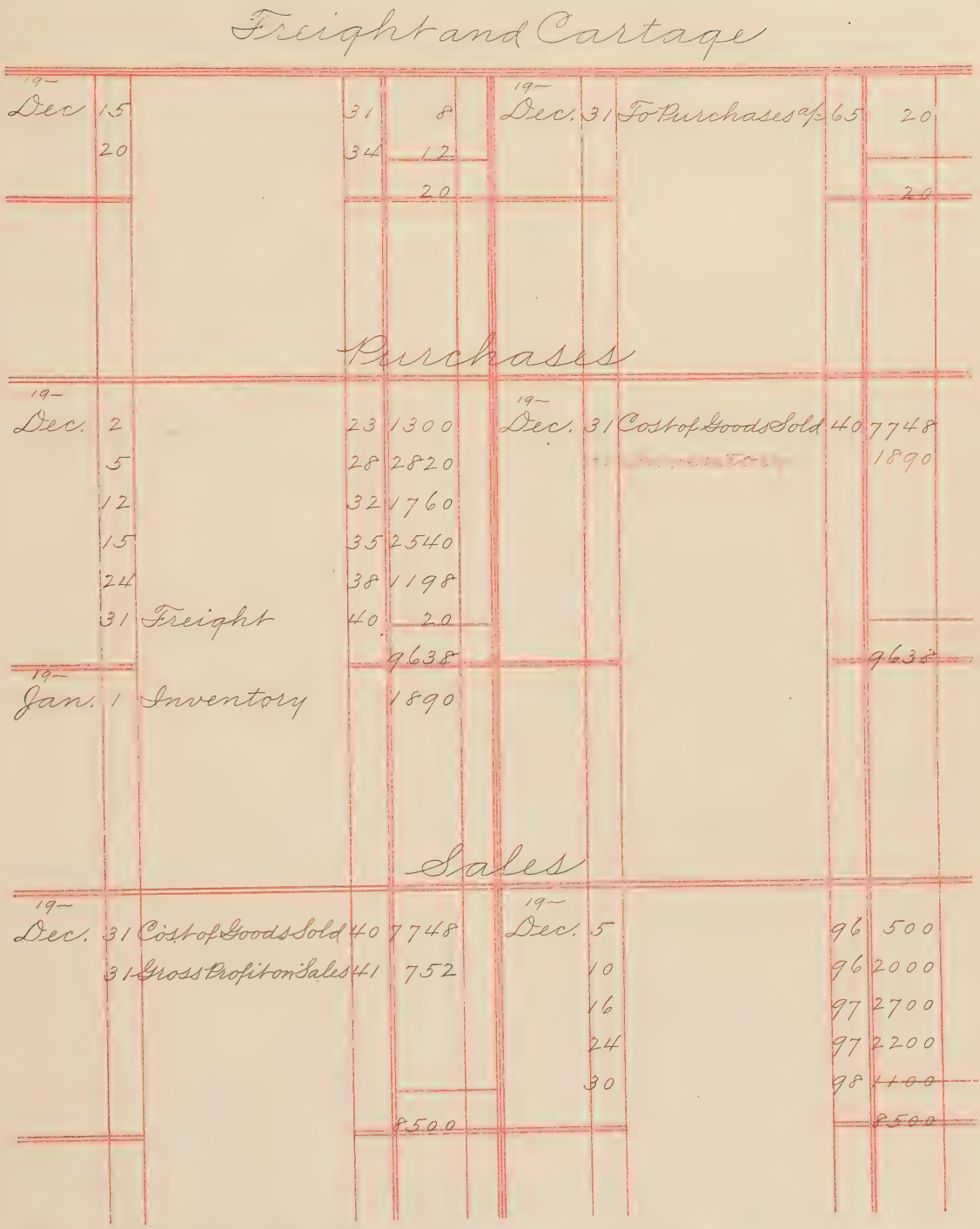
the statement is short and simple, in practice the "account form" is usually more satisfactory. In the latter form, the assets are shown on the left side of a double page and the liabilities and net worth on the right-hand page, the title being written across the center of the double page. The balancing feature of the statement is then clearly brought out. The "statement form" of the Profit and Loss Statement is to be recommended.

CLOSING THE LEDGER

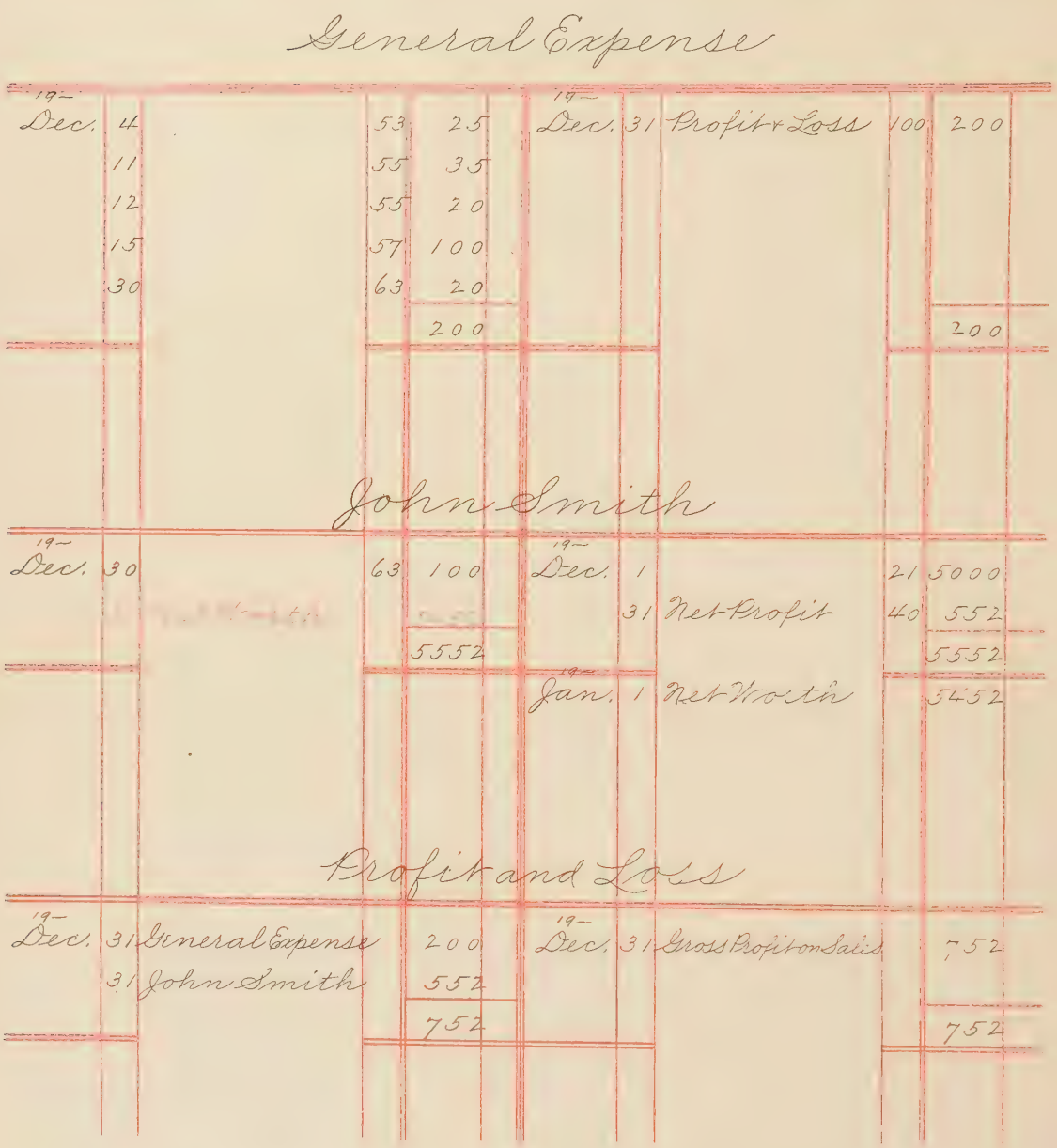
Following the preparation of the financial statements, the next work to be performed by the bookkeeper is the closing of the ledger. This is the process of closing into a Profit and Loss account all accounts which show a profit or a loss. During the period these accounts have served to provide a classification of profits, losses, and expenses, so that they may be assembled at the end of the period, to show the net profit or loss for the period. It is then necessary to close such accounts so that they may again be used during the succeeding period to show the profits and expenses pertaining to this period as entirely distinct from those of the preceding period. The most satisfactory method of closing the ledger is to make closing entries in the journal which result in balancing the accounts showing profits and losses, and to transfer the

December 31, 19–

Purchases		20	
Freight and Cartage			20
To close freight and cartage inward into Purchases account			
3			
Sales		7748	
Purchases			7748
To charge the cost of goods sold into Sales account, the debit balance of Purchases account now representing the inventory of this date			
31			
Sales		752	
Profit and Loss			752
To close the gross profit on sales into the Profit and Loss account, thereby closing the Sales account			
31			
Profit and Loss		200	
General Expense			200
To close the General Expense account into the Profit and Loss account			
31			
Profit and Loss		552	
John Smith			552
To close the net profit for the month ended December 31, into the proprietor's account			



profit or loss to a Profit and Loss account, which account is thereby made to show a summary of all profits and losses. The net profit or loss is in turn closed into the proprietor's account, in the case of a business conducted by an individual; or into the Surplus account, if the business is conducted by a corporation.



The form of closing entries, with their appropriate explanations, is illustrated on page 54. The entries are given as they would apply to the business illustrated by the model financial statements submitted above.

It will be observed that by the second closing entry a balance remains in the Purchases account equal to the inventory of unsold merchandise. When the account is later balanced, this inventory is carried down on the debit side of the account under the beginning date of the new period. See illustration on page 55.

Another method is to open an Inventory account. When this is done, an additional entry would be made, debiting Inventory and crediting Purchases with the cost of goods on

hand at the end of the period. The Inventory account remains open until the books are closed again, when the account is closed into Purchases, and the new inventory set up. This method is the one generally recommended by accountants and has the advantage of removing from the Purchases account, which is primarily a trading account, the inventory of goods on hand, which represents an asset, thus avoiding an account which has two separate functions. However, it is felt that the first method illustrated is more easily understood by the beginner. The instructor may adopt the method which he desires.

The closing entries are posted to the ledger, each posting being paged as is done when posting any other entries, and the accounts are ruled.

The ledger accounts affected by such entries, after they have been ruled, would appear as shown above. Note, however, that the paging indicating the page in the journal from which such entries are supposed to have been posted, is not shown; and that the accounts are not in the order in which they would appear in the ledger, this arrangement being given to show in better sequence the steps taken in closing the ledger.

The Profit and Loss account thus becomes an account which is used only at the time of closing the ledger, when by means of the closing entries all items of profit and loss are brought together in compact form. The function of such an account is stated as follows:

PROFIT AND LOSS

Debit:	Credit:
At the time of closing the ledger with all items of loss or expense, such items being transferred to this account by means of closing entries.	At the time of closing the ledger with all items of profit or income, such items being transferred to this account by means of closing entries.
With the net profit for the period, the corresponding credit being to the proprietor's account.	Credit with a net loss for the period, the corresponding debit being to the proprietor's account.

The account will then balance and will remain closed during the following period.

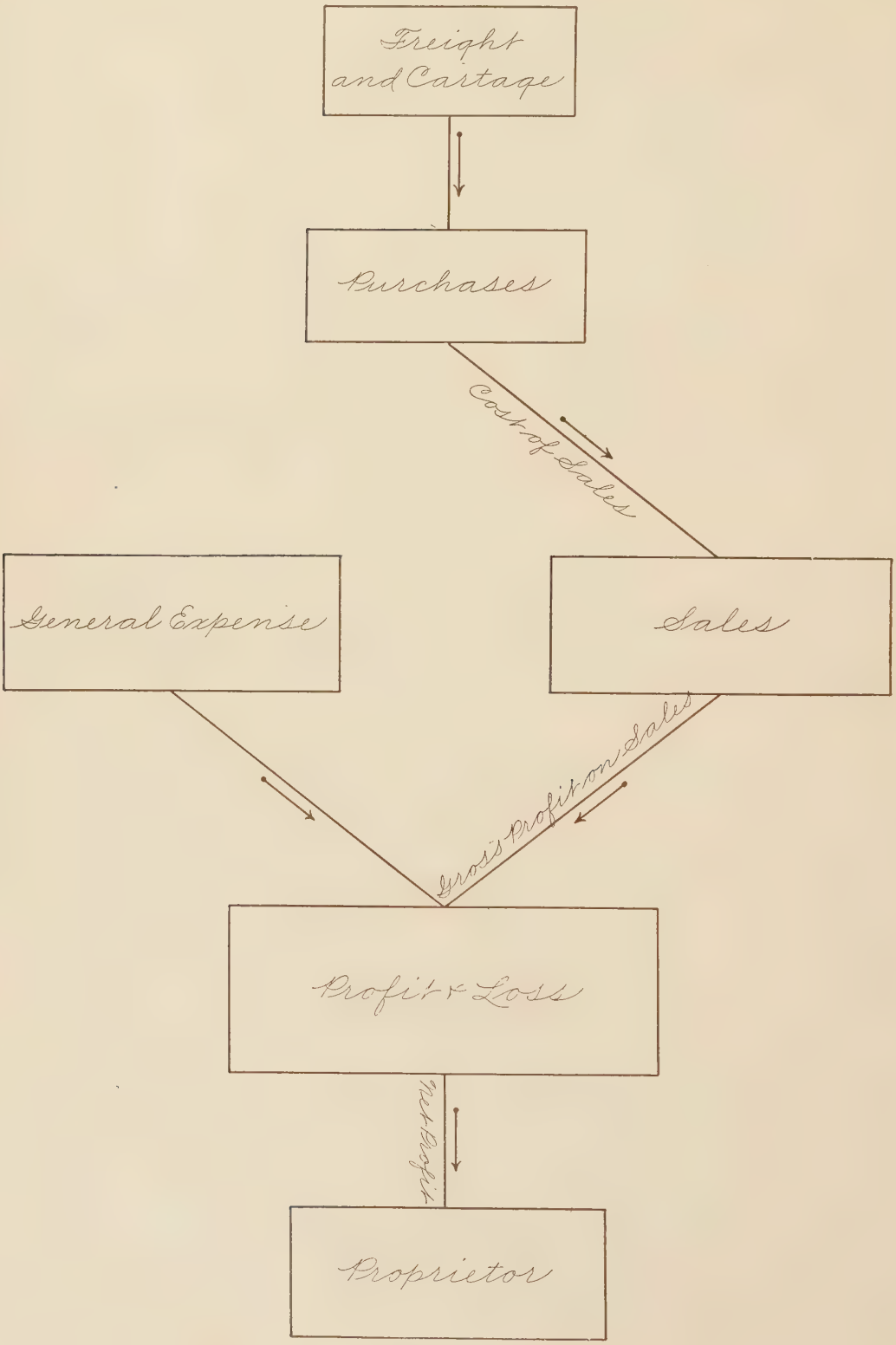
All extraordinary or unexpected items of profit or loss are frequently credited or debited directly to the Profit and Loss account as they arise, thus making use of the account for current transactions of an exceptional type. A much better practice, however, is to open special current accounts for such extraordinary profits or losses, closing them into Profit and Loss at the time of closing the ledger. Items of this character would consist of loss by burglary or fire, cash "overs" or "shorts," any discrepancy in a trial balance which cannot be located, gifts to charity, counterfeit money received, etc.

The diagram on page 58 will serve to illustrate in a rather more graphic manner the purpose of closing the ledger and the results accomplished thereby.

The following work is now to be done by the student:

(*a*) Profit and Loss Statement, February 1–March 31, 19—.
Inventory of merchandise on hand, March 31, $2416.20.
(*b*) Balance Sheet, March 31, 19—.
(*c*) Closing Entries, March 31, 19—.
(*d*) Ruling of ledger accounts.

The two statements and the closing entries should be prepared on separate sheets of journal paper, submitted for inspection and criticism, and then copied in the proper blank book. In addition to ruling the accounts which were closed by closing entries, it is customary to *balance* all accounts showing an asset or a liability. This consists in (1) writing the word "Inventory" in red ink on the credit side of the Purchases account, ruling the account, and bringing


Freight and Cartage
Purchases
Cost of Sales
General Expense
Sales
Gross Profit on Sales
Profit & Loss
Net Profit
Proprietor

down the inventory on the debit side of the account, immediately beneath the ruling, in red ink, under date of March 1; (2) writing " Net Worth " in red ink on the debit side of the proprietor's account and bringing it down on the credit side; (3) balancing the accounts with Cash, Notes Receivable and Notes Payable, and all personal accounts by writing the word " Balance " on the smaller side in red ink, ruling the accounts, and bringing down the balance on the larger side, in black ink, under date of April 1. The balancing of such accounts has already been illustrated under the section on individual accounts.

(*e*) Proof Trial Balance.

REVIEW QUESTIONS

Journalizing, Posting, Trial Balance, Financial Statements, and Closing the Ledger

1 What is meant by journalizing, and why is the process of such importance?

2 Why is a clear and complete explanation an important part of an entry in the journal?

3 When should posting be done?

4 In what ways may posting be performed?

5 What is folioing? Check posting?

6 How should an entry made incorrectly, but not discovered until posted, be corrected? Give an example.

7 Define a trial balance. What is the object in taking a trial balance?

8 What does a trial balance prove? Is it an absolute test of accuracy?

9 Give examples of errors which would not have any effect on the trial balance.

10 What would be the effect on a trial balance of posting a debit item of $100 as a credit?

11 How much would a trial balance be " out " if an item of $50 were posted as 50¢? If an item of $985 were posted as $895?

12 What test would suggest the probability of the errors in Question 11 having been made?

13 If an account having a debit balance of $250 were shown on the trial balance with a credit balance of $250, how much out of balance would the trial balance be? If shown as a debit balance of $2.50?

14 If the trial balance were ten cents, one dollar, ten dollars, one hundred dollars, or one thousand dollars out of balance, what would the error in all probability be?

15 State in detail as many suggestions as possible for locating errors in a trial balance.

16 If both sides of the accounts were shown, would you recommend entering both debit and credit postings of accounts in a trial balance, or only the difference between the two sides? Give reason.

17 How often should a trial balance be taken?

18 What is meant by a trial balance being " cumulative " from month to month within a fiscal period?

19 At the end of a fiscal period, what important results does the business man expect from his bookkeeping records?

20 What use can be made of " business statistics " obtained from bookkeeping records?

21 What are financial statements? What do they show?

22 Define Profit and Loss Statement; Balance Sheet. What is the difference between the two?

23 State fully from what sources the financial statements are prepared.

24 If an account has a debit balance, what must it represent? If a credit balance?

25 Why should the heading of the Profit and Loss Statement show the period covered rather than one date? How may the period covered be indicated?

26 In what way does the heading of the Balance Sheet differ? Why?

27 In what order should the assets appear on the Balance Sheet? The liabilities? Can you think of another arrangement that would be proper? Give arguments supporting both methods, bearing in mind the nature of the business and the use to be made of the balance sheet.

28 Why is the Balance Sheet so named?

29 Define net worth or proprietorship.

30 What is meant by the "account" form of financial statement? Has the term any reference to debit and credit?

31 What is the "statement" form of Balance Sheet and Profit and Loss Statement? Which is preferable?

32 Why is it necessary to close the ledger at the end of a fiscal period?

33 Are all the accounts closed? Which kind of accounts are left open, and why?

34 Describe the process of closing the ledger by means of journal entries. What is the advantage of this method over making cross entries in the ledger?

35 What is the purpose of the Profit and Loss account? Functions?

36 What is a proof trial balance? With what will its totals agree? Why?

37 Explain the difference between a trial balance taken before closing the ledger and one taken after doing so.

38 State the equation which is always shown by the balance sheet.

39 A bookkeeper finds that the debit side of his trial balance exceeds the credit by $127.60, which difference he is unable to locate.

Until he has time to make further search for the mistake, he opens a Suspense account in the ledger and credits it with the amount of the difference.

Later he discovers the following errors:

(*a*) $262.50 posted to the credit of a customer instead of $226.50.

(*b*) Notes Receivable credit of $50 posted to the debit side of the account.

Make journal entries to correct these two errors, the adjustment being made through the Suspense account, and state whether all errors have been located.

40 Inventory of merchandise on hand is taken by A. B. & Co. on December 31, 191–, which amounts to $17,624.30. The inventory taken six months previous, at the last closing of the books, amounted to $21,472.50. The purchases during the period amounted to $62,572.40; the sales, $84,641.20.

Show as you would in setting up a Profit and Loss Statement the manner in which you would arrive at the gross profit on sales.

41 Where would you expect to find the following accounts in the financial statements prepared at the close of a fiscal year?

(*a*) Notes Payable
(*b*) Freight and Cartage In
(*c*) Accounts Receivable
(*d*) Merchandise Inventory
(*e*) Cash

42 What is the reason for opening a separate Inventory account at the time of closing the ledger, transferring to such account the inventory at the close of the period?

43 Should the Profit and Loss account be used as an active account during the fiscal period? Explain and give examples.

BUSINESS PAPERS

In the next practice set, in addition to making entries in the proper books for the transactions as they occur, practice will be given in handling certain business papers which are in common use. These include invoices, promissory notes, checks, receipts, etc. The incoming papers will come to the student properly made out and ready for inspection, entering, and filing, while all papers issued by the business will be written by the student on blanks furnished for that purpose.

Previous to beginning this work, it is important that the form, wording, and use of such papers be well understood, in order that the practice work may be done intelligently and with full appreciation of its value. Only those papers which will be used in the coming exercise are here discussed.

An *invoice* is an itemized list of goods bought, showing date of purchase, from whom purchased, terms of purchase, quantities, names of goods, prices, and amounts. When an invoice is received, it should be checked for quantities, prices, extensions, and additions. If the goods received correspond to the items shown on the bill, a check mark is made against each item in the vertical column to the left. If the multiplications and additions are correct, a check mark is placed to the left of each item as it is verified. If the invoice is found to be correct in every detail, it may be O.K.'d with the bookkeeper's initials beneath.

The following is a model invoice with all verifications made as explained above:

INVOICE

Folio 489

New Haven, Conn., April 1, 19—

SPAULDING BROTHERS
WHOLESALE GROCERS
907-11 Worthington Street

Sold to E. H. Farmer
Norwalk, Conn.

Terms Cash

	✓	20 brls. N Star Flour	8.	160				
	✓	20 " Pastry	8.50	170				
	✓	30 doz. C. Tomatoes	2.	60				
	✓	24 " C. Corn	1.85	44	40	434	40	
		O.K. J.S.						

A *bill* is an itemized statement of goods sold, of services rendered, or of expenses incurred. Bills are generally made out by the creditor on printed bill heads. The relationship between debtor and creditor may be expressed in several different ways. For example, in the case of a sale of goods, the wording may be as follows:

Bright, Sears & Co.,
74 Devonshire St.,
Boston, Mass.
Sold to Henry Richards & Co.,
Manchester, N. H.

or

Henry Richards & Co.,
Manchester, N. H.
To Bright, Sears & Co., Dr.
74 Devonshire St., Boston, Mass.

In the second form the debtor's name appears first on the bill. Another form would be:

Henry Richards & Co.,
Manchester, N. H.,
Bought of Bright, Sears & Co.,
74 Devonshire St., Boston, Mass.

As defined above, an invoice is a statement of goods *bought*, hence a term used by the *buyer;* while a bill is a statement of goods *sold*, hence a term used by the *seller*. This distinction, however, is not always observed, the words "invoice" and "bill" often being used interchangeably.

FOLIO 3 STATEMENT

St. Louis, Mo., June 1, 19—

Mr. Chas. E. Hayes

633 Union St.

IN ACCOUNT WITH **J. M. HASTINGS**

146 ELM ST.

May	1	Account rend.	647	50	
	10	Mdse.	125		
	19	"	342	50	1115
		Cr.			
May	15	Cash			800
					315

A *statement* is an abstract of the debits and credits of a customer's account, showing the balance owing by him at the time the statement is rendered. Such statements are usually

sent out on or about the first of each month and serve to call the customer's attention to the amount which he owes, thereby encouraging prompt payment and in addition enabling the customer to compare the statement with his books to see that they are in agreement. The form of such a statement is illustrated on page 62.

A *receipt* is a statement given by the person receiving money to the person paying it, showing date of receipt, amount received, and for what received. The receipt as a distinct type of business paper is now little used. The usual practice is for the creditor to render a bill, which is receipted by him when the bill is paid. This is done by writing or making a rubber-stamp impression on the face of the bill as follows:

Received Payment
January 31, 1917
Aetna Insurance Company
Per.....

Now that bills are so generally paid by check, not only by business firms but by private individuals as well, the canceled check is coming to be quite universally regarded as a sufficient receipt. This does away to a large extent with the practice of issuing a special receipt or of sending out the original bill to be receipted. The following shows a form of special receipt:

RECEIPT

$166.67 Boston, Mass., January 31, 19—

Received of J. M. Hastings

One hundred sixty-six 67/100 DOLLARS

In payment of rent for January of store at 76 Boylston St.

J. B. Reynolds

A *power of attorney* is a legal document which confers upon the person named therein the authority to perform certain stipulated acts in the name of the person who confers the power. Instead of such acts being specified, the document may confer general powers. It is generally attested by a notary public.

A *lease* is a contract drawn up between landlord and tenant, by the terms of which the tenant is given the right to the use of certain property for a stated period at a specified rental.

BANKING PRACTICE

A *bank* is an institution which deals in money and in credit. Banks are divided into two general classes, commercial banks and savings banks.

A *commercial bank* transacts a general banking business of accepting money on deposit subject to check, discounting commercial paper, and lending money on approved security. Commercial banks serve the business public, primarily, and numbers of private individuals

who find it an advantage to establish bank connections and to pay their bills by check. National banks, trust companies, state banks, and some private banks belong to this class.

A *savings bank* is a non-stock institution chartered by the state to encourage savings among persons of moderate means. Deposits in savings banks draw interest, which is credited to the depositor's account, as a rule, semi-annually. Such deposits, unlike deposits in a commercial bank, are not subject to check, although they may be withdrawn in whole or in part upon presentation of a written order and the depositor's bank book or pass book.

There are numerous advantages to the business man and to the private individual in maintaining a " checking " account. Among these may be mentioned:

(*a*) A greater degree of safety is insured.

(*b*) A canceled check, for all practical purposes, serves as a receipt.

(*c*) Such a practice tends to develop a systematic method of recording income and expenditures. The stub of one's check book, if well kept, provides a simple record of the more important items of one's income and expenditures.

(*d*) The payment of a bill by a neatly drawn check on a good bank adds to the prestige of the drawer.

(*e*) One's bank may often be used as a reference and for credit purposes.

Opening an Account. — After one has selected a bank, and has perhaps procured an introduction to some officer or employee, the first deposit is made. The amount and composition of the deposit are entered on a deposit slip and handed to the receiving teller, who enters the amount in a bank book which is retained by the depositor. At the time, a signature card furnished by the bank is filled out and left with the bank. The depositor should write on this card his business signature in the exact style which he expects to use in signing checks. In addition, most banks ask that other information be supplied on this card, such as home and business address, occupation or profession, and the names of a few persons for references. At the time of making the first deposit, the depositor is also given a check book, on the stub of which is entered the amount of the deposit.

Deposit Ticket. — A deposit ticket is a blank slip supplied by the bank, which the depositor fills out at the time of making each deposit. This supplies the name of the depositor, and the date and composition of the deposit, the total amount in bills and in specie being shown and the checks listed separately. The amounts on the deposit ticket are then added, showing the total of the deposit.

In listing the checks, the common practice is to write the name of the local bank on which the check was drawn in the memorandum space to the left of the money column and on a line with the amount. If the bank is an out-of-town one, the name of the city or town is written.

This practice has been modified, however, by the numerical system now used by Federal Reserve banks. According to this system, all such banks are assigned a number, indicating the region in which the bank is located as well as the serial number of the particular bank. This number is used in all listings of checks and as a means of identifying any bank in the United States. The reserve cities are given prefix numbers from 1 to 49 inclusive in the order of their population. The banks located in each reserve city are given serial numbers from 1 up, the prefix number indicating the city being separated by a hyphen from the sub-number indicating a particular bank in that city. The prefix numbers from 50 to 99 inclusive are assigned to the states, the banks in each state outside of a reserve city being given their own numbers. Thus, 1–264 indicates a New York (N. Y.) bank; 2–147, a Chicago bank; 3–74, a Philadelphia bank; 4–79, a St. Louis bank; 5–20, a Boston bank; 53–19, a Massachusetts bank outside of Boston; 56–287, an Ohio bank, etc.

The number of the bank will generally be found on the check directly to the right of, and on a line with, the name of the bank. In making out a deposit ticket, therefore, instead of writing the name of the bank or the city or town, it is much more convenient and fully as satisfactory to the bank to show the number of the bank.

Copies of deposit tickets should always be preserved, either by making duplicates and filing them away in order, or by making a copy of the ticket on the reverse side of the check book stub. In making such copies, the name of the drawer of the check should be recorded instead of the number of the bank, which is of no consequence to the depositor. A form of deposit ticket is shown herewith.

Deposit Ticket

DEPOSITED BY
John B. Lyons
IN
COMMERCIAL BANK
April 30, 19__

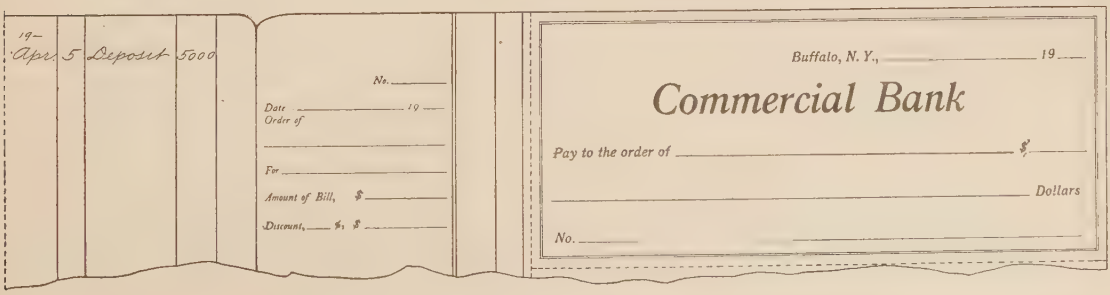
	Dollars	Cents	
Bills	305	00	
Specie	224	80	
Check Comb.	175	20	
" Utica	206	85	
"	911	85	
"			
"			
"			
"			
"			
"			

Bank Book. — A book in which the receiving teller enters the amount of each deposit, thereby providing the depositor with written evidence that a deposit of a certain amount was made on a certain day, is called a bank book.

The bank book, pass book, or bank pass book, as it is variously called, formerly played an important part in banking practice, it being necessary for the depositor to leave it at the bank to be balanced at the close of each month, or whenever desired. This practice has been abandoned now by most banks in favor of methods which are more systematic and which involve less work, with the result that the bank book is now of relatively little importance and has been done away with entirely by some banks.

Check Book and Checks. — A check book is a book furnished to depositors by a commercial bank, containing blank checks for use by the depositors in withdrawing cash or in paying bills. Check books differ in size, design, form of stub, etc., but the following style of check and stub may be regarded as standard, being made with either one, two, or three checks to a page.

Check Book and Stub



Great care should be used in filling out the stub and writing the check. Care and accuracy in keeping the stub will save time in balancing cash and will result in a neat and attractive check book. The check itself goes into immediate circulation, and, if neatly drawn and complete in every detail, reflects great credit upon the individual or business house which issued it.

The following illustrates the form of a properly drawn check:

No. 65 *Boston, Mass.,* April 1, 19—

TRADERS BANK

PAY TO THE ORDER OF Freeman Bros. $124 50

One Hundred Twenty-four 50/100 DOLLARS

J. M. Hastings

The amount in figures should be plainly written close to the dollar sign, the figures showing the number of cents being about half the size of those showing the number of dollars. The amount in words should be begun at the extreme left of the line. It is correct either to capitalize each word or to capitalize only the first word. The blank space following the amount should be filled in with a single ruled line or by a neatly drawn waved line. The signature should exactly correspond to the business signature adopted at the time of opening the account.

A *certified check* is one which, when presented to the bank on which it was drawn, either by the maker or by the payee, has the guarantee of the bank both as to its genuineness and as to there being sufficient funds to the credit of the drawer's account to insure its payment. The bank stamps the word " Certified " and the date across the face of the check, and deducts the amount of the check from the drawer's account, placing this amount in a special account.

Bank Statements. — It was formerly the custom of banks to balance the depositor's pass book whenever the depositor left the book at the bank for that purpose, returning to the depositor with the balanced book the canceled checks which had been paid by the bank since the last balancing. To a great extent this balancing of the pass book has given way to some form of statement rendered by the bank to the depositors at regular intervals, usually on the first of each month. These statements are begun early in the month, and the work of preparing them is spread over the month as a part of the daily clerical work. The statements, together with the canceled checks, are ready to be mailed or to be called for by the first of each month. This does away with the large amount of extra work required to balance the pass books at the close of the month, and is much more satisfactory to depositors as well.

The two forms of statements which are in general use at the present time are the " statement " form and the " envelope " form.

DEPOSITOR'S MONTHLY STATEMENT

In account with

James M. Hastings
476 Milk St.
Boston, Mass.

Tremont National Bank
of Boston

Statement of account for March 19—

LINE	DAY	CHECKS PAID	Balance from last statement DAY	Balance from last statement DEPOSITS	DAY	BALANCE
1	3	100.00	1	9,800.00	1	9,800.00*
2	4	278.81			3	9,700.00*
3	4	72.50			4	9,348.69*
4	6	43.40	5	4,897.50	5	14,246.19*
5	7	11,900.00			6	14,202.79*
6	8	32.00			7	2,302.79*
7	8	231.00			8	2,039.79*
8	12	1,642.69	11	1,531.33	11	3,571.12*
9	16	100.00			12	1,928.43*
10	16	200.00			16	1,628.43*
11	21	800.00			21	828.43*
12	24	125.00			24	703.43*
13	28	400.00	25	509.75	25	1,213.18*
14	28	137.25			28	675.93*
15	30	75.00			30	600.93*
16	31	500.00	31	1,306.53	31	1,207.46*
17	31	200.00				
18						
19						
20						
21						
22						
23						
24						Your balance is the last amount in this column
25						

KEY

L — List
Ex — Exchange
CC — Certified check
Rt — Returned
Cl — Collection
Ln — Loan or discount
In — Interest
OD — Overdraft

IF NO ERROR IS REPORTED IN TEN DAYS THE ACCOUNT WILL BE CONSIDERED CORRECT

The " statement " form consists of a sheet removed from the depositors' ledger and sent to the customer at the end of each month. This sheet shows in one column the balance from the last statement, daily deposits made, and interest credited, if any; and in other columns each

check paid, with the date of payment. A particular feature of this form of statement is that the daily balance to the credit of the depositor is shown, instead of only the final balance at the end of the month. This is quite helpful in case it is desired to verify the amount of interest credited to the account. The form of such a statement is illustrated on page 67.

When the "envelope" system is used, the statement of the depositor's account for the month is shown on the face of a legal size envelope, the canceled checks being inclosed in the envelope. The statement shows the balance to the credit of the depositor's account according to the last rendered statement, the deposits made from day to day, and the total checks paid by the bank for the month as shown by an adding machine slip inclosed. The deposits, plus any interest credited to the account, are added to the balance at the beginning of the month, from which is deducted the total paid checks, thus giving the balance to the credit of the depositor at the end of the month.

When the bank book is balanced, as is still the practice in some banks, the total checks paid by the bank since the book was last balanced are shown on the credit page of the book, the checks being shown in detail on an adding machine list inclosed. The book is then balanced and ruled in the same way that a cash book is balanced, and the bank book, together with the paid checks, is then ready for the depositor.

In banks which render some form of statement to depositors at regular intervals, the bank book is of little consequence and is used merely to supply the depositor with a memorandum of deposits made from day to day.

Reconciliation of Bank Statement. — When the bank statement is received or the bank book balanced, the balance shown should be at once compared with the check book balance of the corresponding date. If the account is at all active, the bank balance and the check book balance will rarely agree, as there will be checks outstanding which have not yet been presented to the bank for payment. Such checks were deducted on the stub of the check book when written, but are not shown on the bank statement. Upon receipt of the statement, the canceled checks should be arranged in numerical order and compared with the check book; in this way those checks which have not been returned are readily determined. The bank statement should then be reconciled with the check book by preparing a statement according to the following form:

RECONCILIATION OF BANK STATEMENT

February 1, 19—

Balance per bank statement		$1987.50
Deduct:		
Checks Outstanding:		
#912	$ 27.50	
#920	63.85	
#922	212.60	
#930	111.50	
#931	22.75	
#935	6.50	
#938	14.87	
		459.57
Balance per check book		$1527.93

If interest has been credited to the depositor's account as shown by the statement, or if collection charges have been made by the bank during the month, the interest would be added to the balance on the stub of the check book and the collection charges deducted.

The reconciliation statement should be preserved by copying it either on the reverse side of the stub of the check book or on forms prepared for that purpose.

Filing Canceled Checks. — Canceled checks should be filed systematically in a way which will economize space and make them easy of reference. How long such checks should be kept, depends upon the personal opinion of the depositor and upon facilities for filing. If the filing facilities are adequate, they may well be kept indefinitely, or at least for six years, as a part of the office records and papers of the business.

The following ways of filing checks may be mentioned:

(1) Filing the bank statement, with checks and other memoranda attached just as received from the bank. This method makes such statements and canceled checks easy of verification in case a regular audit is made of the accounts.

(2) Filing the checks numerically, the statement and other memoranda being destroyed. The checks should be put up in packages of any size desired, each package being labeled to denote the period covered and the check numbers included, thus providing a compact file and one easy of reference.

(3) Attaching the canceled check to the bill or invoice in payment of which the check was issued and filing both away together.

(4) Pasting the canceled checks on the stub from which they were torn.

Under most circumstances, the last method is not satisfactory because of the labor involved and the disagreeable nature of the work. The first method is to be recommended under most circumstances.

In the case of the first three methods, after all the checks in a check book have been used, the cover of the check book should be cut down to the size of the stub and filed.

QUESTIONS ON BANKING PRACTICE

The following list of miscellaneous questions on banking practice is to be studied and information regarding the subjects obtained from any source available:

1 State the features which characterize the following types of banking institutions:

(*a*) National bank.
(*b*) Trust company.
(*c*) Savings bank.
(*d*) Co-operative bank.
(*e*) Building and loan association.
(*f*) Private bank.
(*g*) Federal reserve bank.
(*h*) Farm loan bank.

2 Indorsement:

(*a*) Name and illustrate the two common forms of indorsement. Where should the indorsement be written?

(*b*) Is an indorsement with a rubber stamp sufficient?

(*c*) You receive a check in which your name has been misspelled and the wrong middle initial used; how would you indorse it for deposit?

(*d*) A customer of the Smith-Carr Baking Co. gave one of the salesmen of the company a check for $100 to apply on account; when the salesman returned from his trip on Saturday morning, he went to the office of the company, picked up the rubber stamp used for indorsing checks, indorsed the check with the rubber stamp, took it to the bank, cashed it, and left town. Who was liable? Why?

(*e*) How would you indorse checks which you mail to your bank for deposit in your account?

3 Signature:

(*a*) What general form of business signature would you recommend for a man? For a woman?

(*b*) Is a lead pencil signature valid? A signature with a rubber stamp? A signature by a power of attorney?

(*c*) As treasurer of the Century Club, you collect all money and sign all checks; what form of signature would you use?

4 Errors and Alterations:

(*a*) What should be the practice regarding erasures on checks?

(*b*) What would you do in case you spoiled a check which you were writing?

(*c*) Who loses in case of a forged check? A "raised" check?

(*d*) In filling out the stub of check No. 712, you made an error of $10 in subtracting, obtaining a balance of $10 too much; the error was not discovered until you were proving your cash at the end of the day; you had written twenty checks in the meantime; how would you correct the error?

(*e*) Are checks drawn with a lead pencil valid?

5 What is a post-dated check? Will a bank cash such a check? Will a bank cash a check which bears no date?

6 Are checks required to be written on blank checks furnished by the bank?

7 What would you do in case you lost a check before you had an opportunity to cash or deposit it?

8 In case you wish to draw out money for your own use, how would you write the check?

9 What is a voucher check?

10 What is a bank "overdraft?" Will a bank make partial payment of a check if the depositor's credit is not sufficient to pay the full amount?

11 Is a check dated on Sunday valid?

12 What is the effect of the death or bankruptcy of the drawer of a check?

13 What is interest?

14 What is "ordinary interest," and how is it usually calculated?

15 How would you reckon interest at 6% for 66 days? For 54 days? For 48 days? For 75 days?

16 What is "accurate interest"? How is it obtained? When is it generally used?

17 Give the functions of the Interest on Notes Receivable account. Of the Interest on Notes Payable account.

18 Define bank discount; commercial discount.

19 What is the difference between trade discount and cash discount?

20 Define "chain discount." How is it figured? Illustrate.

21 What accounts are kept to record cash discounts? Trade discounts?

22 Give the functions of the Discounts on Purchases account. Of the Discounts on Sales.

23 Explain fully the following terms of payment: C. O. D.; On account; On account 30 days; Net Cash; Cash, 2%; 2%, 10 days; 1%, 30 days, net, 60 days; Bill of Lading with Sight Draft attached.

Exercise in Banking Practice

Using a check book and deposit slips, prepare deposit slips for the deposits given, make a memorandum of each deposit on the reverse side of the check stub, and write in proper form the checks included in this exercise. The account is kept in the Commercial Bank, Minneapolis, Minn., beginning January 1, 19—.

The amount on each check as drawn may be subtracted from the preceding balance, and each deposit added as it is made, in which case the latest stub used will always show the balance on deposit. It is more common, however, to carry deposits on the backs of the stubs and to show checks only on the face. At the end of the day, when proving cash, the total of the checks drawn since cash was last proved is found, and the total subtracted from the former balance plus deposits.

The second method requires less arithmetical work on the stubs, and has the further advantage that the current balance is not so apparent to the curious eye.

The instructor may require the use of whichever method he prefers.

January 1 Balance per old check book, $4981.50.

2 Check favor C. W. Conant for $200 to apply on account.

3 Check favor L. W. Ball & Co. for $86.25 in payment of bill of December 15.

4 Check favor Frank C. Webster for $16.50 in full of account.

5 Deposit: bills, $72; specie, $14.85; check of J. A. Lyons on Traders Bank (53–96), $150; check of C. A. Corbett on First National Bank (5–140), $63.50; check of John H. Moore on Commerce National Bank (5–465), $225.

Make the following memorandum on reverse side of check stub:

19—				
Jan.	5	Deposit		
		Bills	72	
		Specie	14	85
		J. A. Lyons	150	
		C. A. Corbett	63	50
		J. H. Moore	225	
			525	35

9 Check favor S. S. Pride & Co., $123.82, statement of January 1.

12 Check favor Henry E. Simmons, $26.32, in full of account.

16 Check favor of Irwin & Hardy, $132, for legal services to date.

17 Check favor of S. S. Pride & Co., 78¢, to correct error in check of Jan. 9. (In drawing a check for less than one dollar, the amount in figures should be expressed as follows: $0.78; in words, " Seventy-eight Cents," or " Only Seventy-eight Cents," a line being drawn through the word " dollars.")

20 Check favor of Gibson Bros., $125, in payment of note due to-day.

20 Check favor of John H. Pierce & Co., invoice of Jan. 10 for $1751.60, less 2%.

22 Deposit of bills, $63; coin, $3.87; check of E. H. Reed & Co. on National Builders Bank (5–76), $93.52; check of A. W. Norton, on Citizens' National Bank of Worcester (53–197), $72.00; check of J. L. Hurd on New Bedford Trust Co., New Bedford (53–630), $171.63; check of C. E. Dunn on Bay State Trust Co. (5–77), $13.87.

23 Check favor Hanson & Parker, $220, to apply on account.

23 Check favor Shields Bros., $278.81, for invoice of Jan. 19.

26 Check favor Henry Ward & Co., $43.40, bill of Jan. 30, for books and stationery.

27 The Commercial Bank discounted note of C. W. Grover, dated Dec. 10, for 90 days, face $200, and credited our account for net proceeds.

28 Check favor Hayden Furniture Co., $231, for invoice of furniture, 1/20.

29 Check favor of " Cash " for $100 for H. F. Adams's private use.

29 Check favor West, Stone & Co., for invoice of May 1, $327.50 less 3%.

30 Check favor " Pay Roll " for $1326.52, for month's salaries and wages.

Accounts with Interest and Discount

Interest is money paid by the borrower for the use of money loaned to him.

The method of reckoning interest most commonly used is the Bankers' Sixty Day method. This method is based upon the commercial year of 360 days, thus giving what is known as "ordinary interest." The principles upon which the method is based are as follows:

(*a*) The simple interest on any sum of money will equal the principal in 6000 days at 6%.

This is proved by the following simple arithmetical operation:

If we let 100% equal the principal, 100% will also equal the interest accumulation in a certain length of time which is to be determined. If 6% interest accumulates in one year, it will take as many years for 100% interest to accumulate as 6 is contained times in 100, which is $16\frac{2}{3}$ years, or 6000 days.

(*b*) The principle stated in (*a*) being true, the interest for 600 days on any sum of money is $\frac{1}{10}$ of that sum of money, which is found by moving the decimal point one integral space to the left.

(*c*) The interest for 60 days is $\frac{1}{100}$ of the sum, which is found by moving the decimal point two places to the left.

(*d*) The interest for 6 days is $\frac{1}{1000}$ of the sum, which is found by moving the point three places to the left.

The principles expressed in (*c*) and (*d*) are most commonly used. If the time is an odd number of days, find the interest for 60 or for 6 days, and add or subtract fractional parts thereof. For example, the interest on $600 for 97 days is determined as follows:

Interest for 60 days	$6.
Interest for 30 days	3.
Interest for 6 days	.60
Interest for 1 day	.10
Interest for 97 days	$9.70

If the rate is other than 6%, add or subtract the fractional part thereof. For example for 5% subtract $\frac{1}{6}$ of the interest at 6%; for 7%, add $\frac{1}{6}$; for 4%, subtract $\frac{1}{3}$, etc.

Bankers, brokers, and institutions which find it necessary to make frequent interest calculations use Interest Tables, thus saving much time and insuring accurate results.

In the case of interest paid on depositors' checking accounts or on customers' accounts in a broker's office, the usual practice is to use tables based upon the calendar year of 365 days, thus obtaining "accurate interest." Accurate interest is $\frac{5}{365}$ or $\frac{1}{73}$ less than ordinary interest. This must not be confused with interest figured for the exact number of days, which, when calculated by any ordinary interest method, of course gives "ordinary interest."

An explanation of the function of accounts showing interest received or paid follows:

Interest on Notes Receivable

Debit:	Credit:
With the amount charged by a bank for discounting a non-interest note before maturity. Any debits to the account would thus offset the interest collected on other interest-bearing notes held until maturity. If numerous notes without interest are discounted at the bank, or if it is desired to keep the discount on such notes in a separate account, an account could be opened with Discount on Notes Receivable and debited with such items.	With interest received by the business on notes, loans, and overdue accounts. If an interest-bearing note is discounted at the bank before maturity, this account is credited only with the excess of the interest which would be due on the note at maturity over the discount charged by the bank.

The *balance* is a credit and shows the profit realized in the form of interest on notes and loans of other persons.

INTEREST ON NOTES PAYABLE

Debit:	Credit:
With interest paid by the business to the individual from whom money has been borrowed or for interest paid on an overdue account. With the discount (interest paid in advance) charged by a bank on borrowed money. As is explained on page 72, the custom in such a case is for the bank to discount the note of the borrower for the term of the loan.	With the rebate of the discount allowed the business in case a note is paid before maturity.

The *balance* is a debit and shows the expense to the business of obtaining borrowed capital.

Exercises in Interest

EXERCISE A

Calculate the interest or bank discount on the following, using the Bankers' Sixty Day method:

1 The interest on $637.80 for 90 days at 6%.

2 The interest on $726.65 from May 10 to November 1 at 5½%.

3 The accrued interest on a $1000 bond from July 1 to October 29 at 4%.

4 The interest on $387.50 for 4 months at 6%.

5 The interest on $500 from March 1 to July 27 at 5%.

6 The interest on $917.52 for one year at 4%.

7 The interest at 6% on a book account of $129.87 which became due October 1 but was not paid until January 5.

8 A note of $500 maturing July 15 was discounted by the bank on April 12 at 6%. The note did not bear interest. Calculate the discount.

9 A 4-months note of $750 bearing interest at 5%, due October 22, was discounted by the bank on July 3 at 6%. Calculate the discount.

EXERCISE B

On a sheet of ledger paper open accounts with Interest on Notes Receivable and Interest on Notes Payable and record the following interest items on the proper side of the account affected:

July 1 Receive interest from Oliver & Co. for six months at 6% on a note of $1000.

2 We collect interest of $6.72 on an overdue account of H. I. Kessler.

3 We pay 4 months' interest at 6% on a note of $500 held by H. C. Clark.

4 The Commercial Bank discounts our note of $2000 at 4 months dated to-day at 5½%.

5 We are charged interest of $3.70 by J. J. Harris on an overdue account.

6 The Commercial Bank discounts for us at 6% note of Hudson & Co. for $387.75 dated May 6 and drawn for six months. The note was written without interest.

8 Our bank discounts for us at 6% note of the Rivers Manufacturing Co. drawn April 12 for one year and bearing interest at 6%. Face of note $750.

9 W. G. Johnson pays one year's interest at 5% on a loan of $2000.

10 We pay six months' interest at 5½% on a note of $415.80 held by Curtis & Pope.

11 We borrow $2500 from our bank, giving our note for that amount indorsed by H. C. Fraser. The note is written for 90 days and is discounted for that time at 6%.

12 We prepay note of $500 held by N. A. Conant, dated June 1 and drawn for 60 days and are allowed the discount for the unexpired time.

13 James T. Johnson pays his note of $350 with interest at 6% for 90 days.

15 We pay our note of $1200 held by F. T. Crile with interest for six months at 5%.

16 We hold a note of Robert Lamb for $600 dated June 2, drawn for four months and bearing interest at 5½%. Our bank discounts it for us to-day at 6% and credits our account with the proceeds.

17 We pay six months interest at 6% on note of $400 held by Harold Hooper.

Commercial Discount

There are two distinct types of commercial discount, viz., (*a*) trade discounts; (*b*) cash discounts.

A *trade discount* is a deduction made by the seller from the list or published price of his goods. Such a discount is deducted by the seller on the bill which he renders to the purchaser and consequently no record of such a discount appears on the books of either the buyer or the seller. A trade discount is often expressed in a series of per cents and is often spoken of as a "chain discount"; for example: 3 in. Single Belting, #1772, 500 ft. at 64¢, less 60–10–10%.

A *cash discount* is a discount allowed the buyer for prompt payment of his bill or for payment within a certain specified time. Such a discount is always deducted by the purchaser in case he takes advantage of the discount, the goods being billed to him for the entire amount. Such discount is always recorded on the books of both the buyer and the seller.

In order to show a proper classification of discounts taken by a business and by the customers thereof, accounts are provided for Discounts on Purchases and with Discounts on Sales. The function of these accounts is explained as follows:

Discounts on Purchases

Debit:	Credit:
There would be no debits to this account except in the case of an adjustment due to an error in calculating discount.	With the discount which is taken by the business at the time of paying an invoice; this represents the amount saved by making payment within a specified time as expressed in the terms of the invoice.

The *balance* is always a credit and shows the volume of profits or savings effected by discounting the invoices of a business.

Discounts on Sales

Debit:	Credit:
With discounts taken by the customers of a business at the time of payment, such discount having been offered for payment within a specified time as expressed in the terms of the bill.	There would be no credits to this account except in the case of an adjustment due to an error in calculating discount.

The *balance* is always a debit and represents the expense or loss due to the inducement which the business makes to customers to make prompt payment of all bills.

Terms of Payment

Terms of payment granted to the purchaser vary greatly in different lines of business and among different business houses. The more common terms and the manner of indicating them on the bill or invoice are as follows:

On account, indicated by the symbol a/c or by "On a/c," means that the sale is made without any definite time of payment specified. Usually sales made on account are understood to be due on the first of the following month.

On account, 30 *days* (a/c 30 da.), means that the bill is due 30 days from the date the goods are billed.

Net, or *Net Cash*, means that the purchaser is not entitled to a discount, the bill being due at once.

Cash 2% means that the purchaser may deduct 2% from the face of the bill if payment is made at once. *Cash* in most cases, however, means any time within ten days.

Two per cent, 10 *days; net* 30 *days* (2/10, n/30) means that the bill is due net in 30 days, but the purchaser is entitled to a discount of 2% if he pays within 10 days.

Two per cent 10 *days ; one per cent* 30 *days; net* 60 *days* (2/10, 1/30, n/60) means that the bill is due net in 60 days, that the purchaser is entitled to a discount of 2% if he pays within 10 days, or to a discount of 1% if he pays within 30 days.

There are several important reasons why a merchant should take advantage of cash discounts. Such discounts mean a material saving to a merchant; a merchant who makes it a custom to discount bills has a much better credit rating with banks and mercantile agencies; a reputation for promptness in meeting all bills will result in a merchant being placed on a preferred list by the concerns from which he buys, and he thus has opportunities in buying and selecting stock not offered to the merchant who is slow in meeting his obligations.

The merchant often has submitted to him varying terms of payment and rates of discount offered by competing concerns, and is asked to determine which would be the more advantageous terms to accept.

In such cases, all that is necessary is to compare the different terms with normal interest rates. For example, one company offers 2% discount for payment in ten days, while another company's terms are net sixty days. Assume the amount of the bill to be $1000 and the interest rate 6%. If the cash term is accepted the saving effected would be $20. Assuming that we would be obliged to borrow $1000 with which to accept the cash discount, the interest charge would be $10. A saving of $10 is thus effected by accepting the cash term, which saving is equal to twice the interest rate, or 12% a year on $1000.

Collect on Delivery (C. O. D.) means that the goods have been shipped by local express or by one of the express companies, or have been sent by special messenger, the amount of the bill, which accompanies the shipment, to be collected by local express, the express company, or the messenger before delivery of the goods.

Bill of Lading with Sight Draft Attached (B/L with S/D) means that the goods have been shipped by freight; that a sight draft has been drawn upon the purchaser for the amount of the bill; and that this sight draft has been left at the seller's bank for collection with the purchaser's bill of lading attached thereto. The seller's bank forwards the draft and bill of lading to some bank in the city in which the purchaser lives, and this bank notifies the purchaser of the arrival of the draft. Upon honoring the draft, the purchaser receives his bill of lading, which gives him the right to claim his goods. The amount collected by the bank is remitted to the bank from which it was received, which bank in turn credits it to the account of its customer, the seller of the goods. (This procedure will be discussed more fully later on in connection with the subject of drafts.)

Exercise

The following exercise is to give practice in applying the rules for debiting and crediting accounts with Discounts on Purchases and Discounts on Sales. The work should be done on a sheet of ledger paper. No part of the entry except that which affects one or the other of the discount accounts need be considered.

January 1, 19—. We pay invoice of H. E. Gregory amounting to $735.20, less 1%.

2 We pay invoice of Frank Roberts amounting to $420.42 less 2%.

3 C. A. Carter pays us for a bill of goods of $1236.50, sold him December 25, less 2½%.

4 W. R. Crampton pays for a bill of goods of $816.25, less 1%.

5 We sold S. W. Strauss goods on December 30 to the amount of $727.60; terms 2/10, n/30. Payment is received from him to-day.

6 We bought an invoice of goods amounting to $635 from R. A. Peabody, December 10; terms 2/10, 1/30, n/60. Payment is made to-day.

8 The discount on an invoice of goods of J. H. Dodson, which we pay to-day, amounts to $23.17.

9 The discount on a bill of goods sold to H. C. Hord, and which he pays to-day, amounts to $39.81.

10 We bought an invoice of goods from G. C. Merriam January 5 amounting to $382.90; terms 2% cash. The invoice is paid to-day.

11 J. H. Dodson writes us that our bookkeeper made an error in calculating the discount on the invoice paid the 8th; the discount should have been $22.17.

12 We sold B. A. Franklin a bill of goods on January 5, amounting to $1154.60; terms 2/10, n/30. We receive a check from him to-day for $1133.51 in payment of the invoice. In verifying the same, we find that an error has been made in reckoning the discount. Make an entry for the original discount taken, followed by the proper adjustment.

13 We take advantage of a 2% discount on an invoice of goods amounting to $2745.90.

15 J. H. Davis & Co. send us a check for $814.80 in payment of a bill of goods of $840 sold them the 5th; terms 3/10.

Questions

1 The list price of an invoice of plate glass is $750; this is subject to a trade discount of 75, 25, and 20%. Find the net cost.

2 You get prices from two different companies on a commodity. Company A quotes you a list price of $3600, less 20, 10, and 5% discount; terms of payment 1/10, n/30. Company B quotes you list $4000, less 20, 10 and 10%; terms of payment 2/10, n/30, n/60. You accept the better offer and pay cash. What does the commodity cost you?

3 The terms of payment offered by a wholesale house are 1/30, n/4 months. Which of these two offers should the buyer accept, money being worth 6%? Why?

4 Other things being equal, how do the terms of payment in Exercise 3 compare with an offer of a credit of six months received from another house?

5 How do the following terms of payment offered by two competing wholesale houses compare? Money is worth 6%, and prices and other conditions are assumed to be equal.

(*a*) 1/30, n/60
(*b*) 2/10, n/90

6 A dealer offers an article for sale for cash $100 or on 4 months' time, $125. Money being worth 6%, which is the better price for the buyer to accept?

THE CASH BOOK

In connection with the study of the elementary principles of double entry bookkeeping up to this point, practice has been given in the use and function of only the two elementary books of record, the journal and the ledger. Other books of original entry by means of which the classification of transactions into books kept for a special purpose may be effected will now be studied and adopted for use. In other words, we are now ready to leave the field of the theory of bookkeeping and begin to apply the principles learned to systems and methods of bookkeeping which correspond more nearly to those found in practice.

The first book to be studied in this connection is the cash book. This is a book in which all cash receipts and payments are recorded, thereby providing a complete record of all transactions involving cash, entirely separated from transactions of other types. When a cash book is used, no entries are made in the journal for cash transactions, although the same principles of debit and credit apply to an entry made in the cash book as would apply to a journal entry for the same transaction. In practice, the cash book is usually the most important book of original entry and is in many cases the only book of account. This is true of many single entry systems where the only reason for keeping books is the necessity of having a record of all cash receipts and disbursements.

The cash book in its simplest form is a double-page book, with ruling quite similar to that of the journal, all cash receipts being recorded on the left-hand, or debit, side of the book, and all payments on the right-hand, or credit, side. Thus when cash is received, let us say, from a customer, to apply on account, cash is automatically debited by making the entry on the debit side, and therefore the only part of the entry which needs to be written is the name of the customer who is entitled to credit. The same reasoning applies to an entry made on the credit side of the cash book.

At any time, the difference between the totals of the debit and credit sides of the book shows the cash balance. The proof of accuracy is that this balance should exactly equal the cash on hand both in the bank and in the drawer or safe.

The cashier or bookkeeper proves his cash at least once a day, and if the volume of cash handled is sufficiently large, it may be advisable to do so several times during the day. It is generally desirable to make a permanent record of the final daily proof of cash, many cashiers having regular books in which such a proof is recorded. The following gives the form which such a proof may take:

DAILY PROOF OF CASH

Date..... 19.....

Balance: (At beginning of day)			
In banks	$.....		
In drawer	$.....	$.....	
Total receipts for day	_____	$.....	$.....
Total payments		_____	$.....
Balance: (At end of day)			_____
_____ Bank		$.....	
_____ Bank		$.....	

Drawer:				
Bills		Coins		
Hundreds	$.....	Dollars	$.....	
Fifties	$.....	Halves	$.....	
Twenties	$.....	Quarters	$.....	
Tens	$.....	Dimes	$.....	
Fives	$.....	Nickels	$.....	
Twos	$.....	Pennies	$.....	
Ones	$.....	Miscella.	$.....	$.....

CASH RECEIPTS

DATE		L.F.	ACCOUNT CREDITED	EXPLANATION	CASH DR.	TOTAL
19– May	1		A. B. Fowler	Investment	60 00	
	2		C. H. Carroll	Bill of April 20	268 75	
	4		Notes Receivable	A. M. Frye's note, 4/3	721 80	
	5		A. R. Free	In full of acct.	209 70	
	7		D. B. Hill	Bill of May 1	176	
	9		Notes Receivable	D. M. Jones's note, 4/9	600	
	11		M. C. Dean & Co.	On account	925	
	12		W. J. Mills	In full of acct.	104 20	
	13		Notes Receivable	D. W. Lyons's note 4/13	700	
	15		P. M. Trainer	Bill of even date	260	
	15		Cash Dr.			9965 45
						9965 45
May	16	✓	Balance	on hand		2965 68

It is customary to balance the cash book at the close of each month. At this time, the total receipts for the month are posted in one amount to the debit side of the Cash account; the total disbursements are likewise posted in one amount to the credit side of the Cash account. The items in the "Account Credited" column on the debit side are posted to the credit of the proper accounts, and the items in the "Account Debited" column are posted to the debit of the accounts. In closing the book the balance of cash is entered on the credit side on the first blank line, in red ink, the book is ruled, both pages being ruled on a level, and the balance is carried down below the ruling and entered, in black ink, in the "Total" column under the first day of the succeeding month. A model of a simple form of cash book is given on pages 78 and 79, showing the headings of the columns on both sides, the arrangement of the entries, explanations, and amounts, and the balancing of the book.

Exercise

Design a cash book and record in it entries for all cash transactions of the preceding work in the months of February and March. In preparing the exercise, select from the February and March journal all entries in which cash has been debited and credited, making the proper cash book entries therefor, with appropriate explanations. Use a single sheet of journal paper, following the model on pages 78 and 79. The headings of the columns should be lettered. Close the cash book at the end of each month and bring down the balance.

CASH DISBURSEMENTS

DATE	L.F.	ACCOUNT DEBITED	EXPLANATION	CASH CR.	TOTAL
19— May 2		Expense	Rent $50, books $12, stamps $2	64	
4		Real Estate	Lot, 212 Allen St.	2900	
4		Purchases	Bot. A. J. Carson & Co.	1600	
6		Notes Payable	Favor Larson & Co. 2/6	720	
9		Expense	Office supplies.	6	
11		Expense	Clerks $20, insurance $30	50	
12		M. A. Ellis & Co.	Invoice 7/4	210	
13		Expense	Repairs to typewriter	5	
13		A. M. Dennis	On account	275	
14		L. C. Merritt	In full of acct.	644	
15		C. E. Gray	Invoice 7/2	133	
15		Purchases	Bot. L. M. Carter & Co.	39277	
15		Cash, Cr.			699977
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]
					996545

PURCHASES AND SALES RECORDS

THE PURCHASES JOURNAL

In any business in which goods are being purchased regularly and in fairly large amounts, a *purchases journal* or *purchases book* is necessary in order to provide a further classification of the transactions and to insure a better system of accounts.

There are various ways of recording purchases, ranging all the way from the old-type invoice book to a voucher register.

The old-style invoice book was a book in which the incoming invoices were pasted in the order in which they were received and from which postings were made. While such a method would do very well in case but few invoices are received, under any other conditions it has numerous disadvantages.

The *voucher register* for recording purchases and expenses is the principal book of record used in connection with a voucher system of accounts, and its workings will be explained in one of the sets in the advanced course.

A simple form of purchases book, but one which is thoroughly practical and entirely satisfactory in a trading business of moderate size, is presented at this time. The following illus-

trates the form of such a book with a series of entries recorded therein, and shows the closing of the book at the end of the month:

PURCHASES JOURNAL

DATE	L.F.	ACCOUNT CREDITED	ADDRESS	TERMS	WHEN DUE	WHEN PAID	PUR. DR.
19—							
May 1		J. A. Lewis & Co.	37 North St., City	1/30, n/60	May 31	May 30	500
5		Fox Bros.	147 Elm St., Alton	1/10, n/30	15	15	275 60
18		Traynor & Co.	74 Gay St., N. Y.	2/30	June 27		418 50
25		Dennis Lyons	252 Bray St., N. Y.	30 da net	24		7 6 25
28		M. E. Davis & Co.	74 Fulton, Boston	1% cash		May 30	540
31		Purchases Dr.					2450 35

When the invoice is received, it is entered as shown above. The date on which the invoice should be paid is entered in the " When Due " column; in case the terms give the purchaser a choice of payment, the date entered is the one on which the bill should be paid to get the benefit of the best term offered.

At the end of the month the amount column is footed and the total posted to the debit of the Purchases account. At the same time, or from time to time during the month, if desired, the individual items are posted to the credit of the firm from whom the goods were bought. The double entry feature of the book is thus clearly brought out; the total purchases for the month posted to the debit of Purchases is exactly balanced by posting the individual purchases to the credit of the individual accounts.

SALES JOURNAL

The *sales journal* or *sales book* is the counterpart of the purchases journal and, as its name indicates, is a special book of original entry in which sales are recorded.

Originally bills were made out in longhand and then copied into the sales journal, but this method has been almost entirely given up because of the needless duplication of work, and the increasing possibility of error.

The common practice is to make out the bills in duplicate, either on the typewriter or on a billing machine, the original being sent to the customer and the duplicate being filed in some suitable binder. As the duplicate bill contains all details regarding the sale, including items, selling prices, etc., the sale does not need to be itemized when entered in the sales journal, but instead only an abstract of the bill is entered, similar to the entry made in the purchases journal for an invoice of goods purchased.

In a wholesale business, a separate bill is usually rendered at the time of sale, covering each sale, the entry in the sales journal being made at the same time. In a retail business, the usual practice is to issue a sales ticket or sales memorandum covering daily sales, rendering a monthly bill covering all sales for the month.

The following illustrates a form of sales journal suitable for a wholesale business which renders a bill covering each sale, the billing being done in duplicate on the typewriter.

SALES JOURNAL

DATE		L.F.	TO WHOM SOLD	ADDRESS	TERMS	SALES NO.	SALES CR.
19–							
May	5		F. L. Hooper	37 Center St, City	1/30, n/60	100	450
	8		Ronald & Co	412 Rand St, City	1/30, n/60	101	200
	15		W. D. Cowan	67 Fort St, Adams	1/30, n/60	102	415 70
	25		R. O. Hall	191 Hart St, Revere	net cash	103	60
	30		O. A. Mann Co.	419 Brown Ave, City	1/30, n/60.	104	178 60
	31		Sales Cr.				1304 30

At the close of the month, the sales journal is closed, as shown above; the total sales are posted to the credit of Sales, and the individual items are posted to the debit of their respective accounts. In practice, the postings to the customers' accounts would in all probability be made from day to day.

Exercises

1 Design a purchases journal on a sheet of journal paper according to the model given on page 80, and record in it the invoices of goods bought during March, pages 48–50. Close the book at the end of the month.

2 Design a sales journal on a sheet of journal paper according to the model given on page 81, and record in it the sales for the month of March. Close the book at the end of the month.

3 If other preliminary practice is needed in purchases and sales journals, design such books and enter therein the purchases and sales in Exercises, pages 132–136.

CASH BOOK WITH SPECIAL COLUMNS

NOTE. — The study of this book may be deferred, at the discretion of the instructor, until after the April work has been completed.

The simple form of cash book illustrated and explained on pages 77, 78, and 79 is one which is readily learned and which would be satisfactory in a small business or institution. In practice, however, where the cash transactions are numerous and admit of classification, the cash book is provided with one or more special columns to accommodate certain types of transaction to be recorded in it.

In mercantile bookkeeping, where cash discounts are allowed by creditors and to customers, and where notes are discounted at the bank, the elementary cash book has certain disadvantages, due to the fact that it is necessary to show the full amount of the bill or invoice or

RECEIPTS

DATE	L.F.	ACCOUNT CREDITED	EXPLANATION	ACCOUNTS RECEIVABLE CR.	DISCOUNTS ON SALES DR.	NET RECEIPTS AND SUNDRY
19–						
Mar. 1		Balance				340860
2		H. W. Field	On a/c	1000		1000
3		Thomas Scott	Bill of 7/25 less 2%	650	13	637
4		J. K. Johnson	Bill of 3/1 less 1%	225	225	22275
5		Sales	Cash sales for week			12780
11		K. S. Denny	Bill of 3/3 less 1%	145	145	14355
12		Notes Receivable	Note due to-day			100
12		Interest on Notes Rec.	60 da. @ 6%			1
16		Sales	Cash sales			3670
17		Notes Receivable	Dis. E. G. F. note	*500	* 107	49893
31	✓	Accounts Receivable	Total	2020		
31		Discount of Sales Dr.			1670	
31		Interest of Notes Rec.	Dr.		107	
31		Cash Dr.				276773
31	✓	Balance	March 1			340860
						617633
Apr. 1		Balance				85981

note on one side of the cash book and to record the discount on the opposite side. If, for example, Henry Brown pays his bill of $1000, taking advantage of a 2% discount which has been allowed him, we enter on the debit side of the cash book a credit to his account of $1000, and on the credit side we debit Discount on Sales for $20. While by this means the proper accounts are debited and credited, we have been obliged to enter on the debit side an amount $20 in excess of the amount actually received, and to enter $20 as a payment on the credit side, such payment not having actually been made. Furthermore, the actual amount received or paid is not shown on either side. At the end of the month, the total receipts and payments as shown by the totals of the debit and credit sides respectively are both inflated for the reason that they include the accumulation of discount items for the entire month, whereas the debit footing should exactly agree with the total receipts and the credit footing with the total payments.

DISBURSEMENTS

DATE		L. F.	ACCOUNT DEBITED	EXPLANATION	ACCOUNTS PAYABLE DR.	DISCOUNTS ON PURCHASES CR.	NET PAYMENTS AND SUNDRY
19–							
Mar.	1		Rent	March			600
	6		Robert C. Grant	On a/c	500		500
	8		F. W. Holmes	Inv. less 1%	727 60	7 28	720 32
	9		W. P. Kidder	Inv. 1st less 2%	540	10 80	529 20
	10		Office Wages	To date			240
	10		Store Wages	" "			375
	13		Henry A. Howe	Inv. 7th less 2%	700	14	686
	14		Notes Payable	Note due today			360
	14		Interest on Notes Pay.	4 mo. @ 6%			7 20
	25		Selling Expenses	Salesmen's			112 50
	27		General Expense	Electric light			37 80
	28		Store Wages	For week			286
	28		Office Wages	" "			250
	31		M. A. Angell	Inv. less 2%	625	12 50	612 50
	31		Accounts Payable	Total	3092 60		
	31		Discounts on Purchases Cr.			44 58	
	31		Cash Cr.				5316 52
			Balance				59 81
							6176 33

Because of this rather serious objection from the standpoint of good bookkeeping, the cash book for a business in which discounts are common invariably contains special columns for discounts on purchases and on sales. Such a cash book is illustrated on pages 82 and 83, with entries recorded in it as follows:

March 1 Balance, $3408.60.

1 Pay rent for the month, $600.

2 Receive check from H. W. Field to apply on account, $1000.

3 Receive check from Thomas Scott in payment of bill of February 25 for $650 less 2%.

4 Receive check from J. W. Johnson in payment of bill of March 1 for $225 less 1%.

5 Cash sales for the week, $127.80.

6 Pay Robert C. Grant on account, $500.
8 Pay invoice of F. W. Holmes of $727.60 less 1%.
9 Pay invoice of H. P. Kidder of the 1st inst. for $540 less 2%.
10 Pay office wages, $240; store wages, $375.
11 H. S. Denny pays his bill of the 3d of $145 less 1%.
12 James B. Ames pays his note of $100 due to-day with 60 days' interest.
13 Pay invoice of Henry A. Howe of the 5th for $700 less 2%.
14 Pay note due to-day held by G. S. Harwood for $360 with interest for 4 months at 6%.
16 Cash sales for week, $36.70.
17 The Commercial Bank discounts at 6% a note which we hold on E. G. Foss for $500 which is due March 31; the note does not bear interest.
25 Pay salesmen's traveling expenses, $112.50.
27 Pay electric light bill for month, $37.80.
28 Pay store wages, $286; office wages, $250.
31 Pay invoice of M. A. Ingell for $625 less 2%.

Comments on the Cash Book Illustrated Above. — In addition to discounts on sales, provision must be made for the discount charged by the bank for discounting a note before maturity, which in the elementary cash book must also be entered, but on the opposite side. As such discounts are not likely to be of sufficient number to justify an additional column, the face of the note may be entered in the column for Accounts Receivable, the discount thereon in the column for Discounts on Sales, the items starred (*) or otherwise indicated, and the column analyzed at the end of the month. As an example, attention is called to the way in which the discount on the note of E. G. Foss was handled on the 17th.

If we borrow from the bank, giving our own note which is discounted, the entry would similarly be a credit to Notes Payable, the face being entered in the Accounts Receivable column, the discount in the Discount on Sales column, and the proceeds in the Net Receipts column. At the close of the month, when balancing the cash book, the starred items should be shown below as a debit either to Interest on Notes Receivable or to Interest on Notes Payable, depending upon which kind of note was discounted. Two or more discount items of the same class would, of course, be added together for posting purposes. The total of the discounts on sales items is shown as a debit to that account and is posted at the end of the month.

The individual items in the Accounts Receivable and Accounts Payable columns are posted to the proper sides of their respective accounts. Receipts other than from customers or payments other than to creditors are entered in the Net Receipts or Net Payments column, and the individual items are posted. The items checked, indicating the totals of the Accounts Receivable and Payable columns, are not posted.

The total of the Net Receipts column, which exactly agrees with the total cash receipts for the month, is posted to the debit of Cash, as indicated. In obtaining this total, care should be taken not to include the balance brought forward at the beginning of the month. This balance should be cut off by a line drawn beneath, or it may be short-extended in the explanation space.

The total of the Net Payments column, which exactly agrees with the total cash payments for the month, is posted to the credit of Cash, as indicated.

JAMES M. HASTINGS BUSINESS

APRIL

The student is now to act as bookkeeper for James M. Hastings, who has opened a store at 146 Elm Street, for dealing in flour, grain, and produce at wholesale. The salary paid will be $75 per month.

Mr. Hastings attends to the buying and selling and is absent from the city most of the time; a power of attorney will be conferred upon the student in order that he may sign and indorse notes, checks, and other papers during Mr. Hastings's absence. The power of attorney is the first paper on the pad of incoming vouchers which belongs to the outfit of business papers and forms furnished the student. The document should be read carefully in order that the form and wording be understood, and then folded lengthwise. Across the end of the folded instrument write:

Power of Attorney
given to
(Student's name)
by
James M. Hastings
April 1, 19—

The instrument may then be filed in the folder labeled Vouchers, which will be found in the large envelope of Business Forms.

Books Used. — In this exercise, the books used will be a journal, purchases journal, sales journal, cash book, and ledger. All cash transactions will be entered in the cash book, as illustrated on pages 78 and 79. All transactions other than cash will be recorded in the other books of original entry (journal, purchases journal, and sales journal).

Selling Price Lists. — Each student will be assigned a separate price list from the table, shown on page 86, from which the selling prices of all commodities dealt in will be taken.

It will be noted that the prices of the commodities dealt in are below the normal market prices of such commodities. The purpose of the individual price lists is primarily to give practice in billing and to encourage individual effort on the part of the student, and not to teach market conditions and prices.

Currency. — In addition to receiving checks and making payments by check, the student will also handle currency in the form of imitation bills and fractional pieces. This provides excellent drill in counting money rapidly and accurately, in arranging bills according to denominations and all facing the same way, and in balancing cash.

The proper way to count bills will be demonstrated by the teacher, or the student should take advantage of the opportunity of watching an experienced cashier or a paying teller at any bank. Their methods of handling money should be carefully imitated in all practice work.

All currency and checks received should be placed in the large envelope labeled Cash Drawer, which will be found in the package of Business Forms. All currency and checks issued should be placed in the envelope labeled Cash Paid Out.

TRANSACTIONS

No. 1 April 1, 19— James M. Hastings invests $8000 in the business which he has begun on this date. The amount should be in agreement with the currency contained in the envelope numbered to correspond with the number of this transaction on the April pad of incoming vouchers.

April Selling Price Lists

	1	2	3	4	5	6	7	8	9	10	11	12	13
Apples	3.50	3.60	3.70	3.80	3.90	4.00	3.52	3.62	3.72	3.82	3.92	3.54	3.64
Barley	.86	.91	.86	.91	.86	.87	.92	.87	.92	.87	.88	.86	.88
Corn	.86	.84	.85	.86	.86	.86	.85	.86	.87	.85	.86	.85	.87
Flour	9.00	8.90	8.80	8.70	8.60	8.50	8.98	8.88	8.78	8.68	8.58	8.96	8.86
Oats	.56	.58	.57	.56	.56	.56	.57	.56	.55	.57	.56	.57	.55
Potatoes	1.10	1.15	1.20	1.15	1.10	1.15	1.20	1.15	1.10	1.15	1.20	1.15	1.10

April Selling Price Lists — Continued

	14	15	16	17	18	19	20	21	22	23	24	25
Apples	3.75	3.80	3.75	3.70	3.75	3.75	3.80	3.80	3.75	3.70	3.65	3.80
Barley	.91	.86	.88	.92	.90	.88	.90	.91	.88	.86	.90	.91
Corn	.85	.86	.84	.86	.84	.86	.84	.86	.85	.84	.85	.86
Flour	8.75	8.70	8.75	8.80	8.75	8.75	8.70	8.70	8.75	8.80	8.85	8.70
Oats	.57	.56	.58	.56	.58	.56	.58	.56	.57	.58	.57	.56
Potatoes	1.15	1.20	1.15	1.10	1.15	1.20	1.10	1.05	1.10	1.15	1.12	1.15

No. 2 April 1 — Mr. Hastings has rented the building at 146 Elm Street, from R. B. Hines at a rental of $100 per month. Pay April rent in currency, using bills of the largest denomination possible.

Remove from the pad of incoming vouchers the lease and receipt, each numbered 2, representing the business papers which were issued in connection with this transaction. Read the lease carefully, fold it lengthwise, and file it with the receipt in the folder labeled Vouchers.

No. 3 April 2 — We have bought goods of Daniels Bros. as per invoice numbered 3 taken from pad of incoming vouchers.

Verify multiplications and additions and, if found to be correct, O.K. the invoice as explained on page 61. Place the invoice in the folder labeled Invoices. The same routine should be followed in the case of every invoice received, and the student will be held responsible for any undetected errors in the invoices or for any mistake in filing.

Pay the invoice by removing the amount of currency necessary from the Cash Drawer and placing it in the Cash Paid Out envelope. For this transaction an entry should first be made in the purchases journal, followed by the proper entry in the cash book for the payment of the invoice. (See pages 79 and 80.)

No. 4 April 2 — Bought goods from D. Davenport and Co., as per invoice. Terms, cash. Proceed exactly as in No. 3.

No. 5 April 3 — Voucher No. 5 from the pad of incoming vouchers shows an order from J. A. Barker for a bill of goods. The terms are cash, and the cash accompanies the order.

Fill the order, making out a bill on a billhead taken from the pad in the package of Business Forms; use the selling price list assigned you, in billing the goods. If the bill is correctly figured, the total should agree with the amount of cash accompanying the order. The bill should be receipted and placed in the envelope labeled Vouchers for Others.

All bills made out should be correct as regards punctuation, capitalization, tabulation of items and prices, and should be written in a neat, business-like style of penmanship.

Make an entry in the sales journal, and an entry in the cash book for the receipt of the cash. (See pages 78 and 81.) Register this sale as sales number one in the sales journal.

No. 6 April 3 — Bought goods from L. A. Wright & Co., for cash. Proceed as directed in transaction No. 3.

No. 7 April 4 — Bought for cash, books and stationery for office use, as per invoice. Pay the invoice in currency, file in Vouchers folder, and make proper cash book entry.

No. 8 April 4 — Sell E. M. Smythe & Co. for cash, merchandise as per order received. Proceed as directed in transaction No. 5.

No. 9 April 4 — Bought merchandise on account from Hatheway & Reynolds, as per invoice.

No. 10 First Report — Fill out the report blank taken from the pad of incoming vouchers. Foot in pencil the debit and credit sides of the cash book and enter footings on the blank lines for Cash Receipts and Cash Payments, the cash on hand being the difference between the two amounts; prove the cash as instructed heretofore. Foot in pencil the purchases journal and the sales journal, and from these books obtain the amounts needed to fill out the remainder of the report.

The completed report and any books and business papers asked for should be submitted to the instructor.

No. 11 April 5 — Open an account for Mr. Hastings in the Commercial Bank, depositing $5000 in currency, following the instructions previously given. (See page 64.) Deposit slips, check book, and other banking supplies will be found in the package of Business Forms.

No. 12 April 5 — Sell Charles E. Hayes goods on account as per his order of the 4th inst.

No. 13 April 6 — Fill Ellis & Rand's order.

No. 14 April 8 — Bought goods on account from Smith & Dorothy as per invoice of this date.

No. 15 April 8 — Received $300 in currency from Charles E. Hayes to apply on account of his bill of the 5th. Issue a receipt covering the payment.

No. 16 April 9 — Pay Hatheway & Reynolds $400 in currency to apply on account of invoice of the 4th. A receipt is received covering the amount, which should be filed in the Vouchers folder.

No. 17 April 10 — Bought goods from George C. Cary as per invoice.

No. 18 April 10 — Received a promissory note from Ellis & Rand to apply on bill of the 6th. All details of the note should be mentioned in the journal entry, as stated in the fourth paragraph, page 39. File the note in the Safe envelope.

No. 19 April 11 — Fill Charles E. Hayes' order of the 10th.

No. 20 April 12 — Bought goods from L. A. Wright & Co. as per invoice.

No. 21 April 14 — Give L. A. Wright & Co. promissory note at 10 days for $400 without interest to apply on account. Write the note, using one of the blanks found in the package of Business Forms, make the proper journal entry, and place the note in the Vouchers for Others envelope.

No. 22 April 14 — Fill Ellis & Rand's order of the 13th.

No. 23 April 16 — Received check from Charles E. Hayes to apply on account.

No. 24 Second Report — Prepare the report, including amounts obtained from the journal entries, as well as from the other books of original entry, and submit it to the instructor, together with any books or papers which may be called for.

No. 25 April 17 — Give George C. Cary check for $700 to apply on account of invoice received April 10. After the check is written it should be removed from the check book and placed in the Cash Paid Out envelope. Make the proper cash book entry.

The stubs and checks should be numbered throughout the check book in consecutive order, beginning with the first April check as number one.

No. 26 April 19 — Fill order of T. W. Bowen & Co., dated the 18th.

No. 27 April 20 — Received check from T. W. Bowen & Co. to apply on bill of the 19th.

No. 28 April 20 — Received check from Ellis & Rand in payment of their note due to-day. Make the entry, file the check, and remove the note from the Safe envelope; receipt the note by writing across the face:

Received Payment,
April 20, 19—.
James M. Hastings
per (Student's name)

The note should then be placed in the Vouchers for Others envelope.

No. 29 April 20 — Give George C. Cary a promissory note at 30 days without interest for the balance due him. The amount due is determined by looking up the debits and credits to his account and finding the difference between them.

No. 30 April 23 — Bought goods from Garfield Bros. as per invoice.

No. 31 April 23 — Give Garfield Bros. check for $750 to apply on account of invoice of this date.

No. 32 April 24 — Give L. A. Wright & Co. check in payment of our note dated April 14 which is due to-day. Remove the note from the Vouchers for Others file, write "Paid, April 24" across the face, and place it in the Vouchers folder.

No. 33 April 25 — Bought merchandise from Bernet & Craft as per invoice.

No. 34 April 26 — Fill H. A. Woodbury's order of the 25th.

No. 35 April 27 — Draw a check for $75 in favor of James M. Hastings. This money is for Hastings' private use.

No. 36 April 28 — Fill order of T. W. Bowen & Co.

No. 37 April 30 — Pay bill of City Carting Company by check. Note that the bill is for cartage on merchandise bought.

No. 38 April 30 — Received promissory note from T. W. Bowen & Co. for 15 days without interest to apply on account.

No. 39 April 30 — Fill H. A. Woodbury's order of the 29th.

No. 40 April 30 — Pay your month's salary as bookkeeper, $75, in currency, the amount being taken from the Cash Drawer.

No. 41 April 30 — Remove all currency and checks from the Cash Drawer and make up deposit. Indorse the checks properly. Present the deposit slip with the currency and checks to the instructor, who will make the proper entry in the bank book. Make a memorandum of your deposit on the reverse of the check stub and write the total deposit in the money column.

No. 42 THIRD REPORT — Prepare the report called for, making sure that your cash proves. Close the cash book, purchases journal, and sales journal, giving careful attention to every detail of the work and following the instructions previously given. Hand the report, together with books and papers called for, to your instructor for inspection.

Following the completion of the entries for April the following work is required:

No. 43 Open the ledger accounts. Beginning on a new page in the ledger, open accounts for the April work, numbering all pages in consecutive order as used. Accounts are opened in the following order, leaving space as indicated: James M. Hastings, Cash, Purchases, Freight and Cartage, Sales, General Expense, each one-half page; Notes Receivable and

accounts with customers, arranged alphabetically, one-third page to each; Notes Payable and accounts with creditors, arranged alphabetically, one-third page to each; Loss and Gain, one-fourth page. Show the full address of each firm at the head of the account.

No. 44 Do all posting for April from journal, purchases journal, sales journal, and cash book. In posting from the cash book, all items entered in the Account Credited column on the debit page are posted to the *credit* of their respective accounts; all items in the Account Debited column on the credit page are posted to the *debit* of their respective accounts. The total cash received for the month, as shown by the footing of the debit page, is posted to the *debit* of the Cash account; the total cash paid out during the month, as shown by the footing of the credit page, is posted to the *credit* of the Cash account. Post from the purchases journal and the sales journal as instructed on pages 80 and 81.

Check post all work before beginning a trial balance.

No. 45 Take a trial balance and submit it for inspection.

No. 46 Prepare Profit and Loss Statement and Balance Sheet.

An inventory of merchandise on hand April 30 shows the following:

305 bbl. Apples	675 bu. Corn
200 bbl. Flour	800 bu. Oats
25 bu. Barley	1025 bu. Potatoes

Calculate the value of the inventory, using the latest cost price of each commodity as shown by the invoices.

No. 47 Make the closing entries in the journal, writing them on the page immediately following the regular entries for the month. Post the closing entries, rule and balance the ledger accounts, and take a proof trial balance.

No. 48 Prepare monthly statements to be mailed to each customer whose account shows a balance due us as of April 30. Statement blanks will be found with the Business Forms. Follow the instructions given on page 62. Submit your April work for examination.

REVIEW QUESTIONS — April Set

1 What is a power of attorney? Under what circumstances is it necessary?
2 What is a cash book? Explain how it is used.
3 Explain why the cash book is a form of journal.
4 How is the cash book balanced? How often should this be done?
5 How are postings made from the cash book?
6 Is it necessary to have a Cash account in the ledger when the cash book is used? Give reason.
7 How often should the cash be proved, and why?
8 Explain the advantages of using a purchases journal and a sales journal.
9 How are postings made from each of these books?
10 When may the posting be done?
11 What is a lease? Must a lease be in writing? If oral, what is the effect?
12 What would be the lessor's rights if the lessee should vacate the premises and refuse to pay further rent?

HENRY F. ADAMS BUSINESS

MAY

The student takes a position as bookkeeper for Henry F. Adams, who is commencing business as a wholesale dealer in tea, coffee, and spices at 246 Main Street, Franklin, Ohio, at a salary of $85 per month. In order that the bookkeeper may have full authority to carry out the usual office routine, Mr. Adams has conferred upon him a power of attorney.

Books Used. — The bookkeeping system will consist of a journal, purchases journal, sales journal, special column cash book, and ledger.

Selling Price Lists. — Selling price lists will be assigned by the instructor from the tables shown below and on page 91.

Terms of Sale. — The standard terms of sale adopted in this exercise are 2/10, n/30, although some deviation is made from these terms in the cases of certain customers and some commodities. These terms, however, are arbitrarily adopted for use in this exercise and should not be taken as indicating the standard discount rate among wholesale grocers. While each wholesaler adopts a definite discount rate and term of credit, this rate is found to vary among different houses and in different localities.

In doing the billing in this set the terms should be expressed as 2/10, n/30, unless instructions are given to the contrary.

SELLING PRICE LISTS FOR MAY

		lb.	1	2	3	4	5	6	7	8	9	10	11	12	13
Japan	Hf. Ch.	60	.40	.38	.37	.36	.25	.26	.41	.35	.34	.39	.24	.25	.30
Oolong	"	50	.55	.60	.61	.62	.73	.66	.72	.70	.71	.56	.63	.62	.57
Ceylon	Case	50	.60	.58	.55	.65	.45	.50	.53	.55	.45	.40	.57	.56	.59
Y. Hyson	Hf. Ch.	70	.35	.37	.38	.39	.50	.49	.34	.40	.41	.36	.51	.50	.45
Eng. Breakfast	"	60	.50	.45	.44	.43	.32	.39	.33	.35	.34	.49	.42	.43	.48
Mocha	Bale	150	.25	.25^2	.24	.24^2	.26^2	.25^2	.24^2	.27	.28^2	.29	.30	.32	.28
Java	Mat	75	.28^2	.25	.25^2	.26^2	.29	.30	.30^2	.29^2	.27^2	.26	.27	.24^2	.24
Maracaibo	Bag	125	.18^2	.18	.19^2	.19	.17	.18	.19	.16^2	.15	.14^2	.13^2	.11^2	.15^2
Rio	"	125	.14^2	.18	.17^2	.16^2	.14	.13	.12^2	.13^2	.15^2	.17	.16	.18^2	.19
W. Pepper	Box	10	.30	.31^2	.29	.28	.31	.33^2	.30	.33	.32	.30^2	.26^2	.28	.29
	Pail	25													
Cinnamon	Box	10	.35	.36	.33	.34	.37	.38	.33	.32	.35	.39	.37	.34	.34^2
	Pail	25													
Cloves	Box	10	.20	.18^2	.21	.22	.19	.16^2	.20	.17	.18	.19^2	.23^2	.22	.21
	Pail	25													
Nutmegs			.70	.69	.72	.71	.68	.67	.72	.73	.70	.66	.68	.71	.70^2
Ginger	Box	10	.30	.32	.35	.25	.45	.40	.37	.35	.45	.50	.33	.34	.31
	Pail	25													

The small index figures used in the above price lists indicate "fourths." 25^1 equals $25\frac{1}{4}$. 25^2 equals $25\frac{1}{2}$. 25^3 equals $25\frac{3}{4}$.

SELLING PRICE LISTS FOR MAY — Continued

		lb.	14	15	16	17	18	19	20	21	22	23	24	25
Japan	Hf. Ch.	60	.32	.38	.40	.34	.29	.31	.33	.27	.28	.26	.30	.29
Oolong	"	50	.55	.49	.52	.58	.64	.67	.65	.72	.57	.69	.66	.58
Ceylon	Case	50	.61	.52	.47	.43	.39	.38	.41	.44	.37	.36	.42	.46
Y. Hyson	Hf. Ch.	70	.43	.37	.35	.41	.46	.44	.42	.48	.47	.49	.45	.46
Eng. Breakfast	"	60	.50	.56	.53	.47	.41	.38	.40	.33	.48	.36	.39	.47
Mocha	Bale	150	.28^{2}	.27^{2}	.30^{2}	.25	.31	.28	.26	.27	.29^{2}	.24	.28	.26^{2}
Java	Mat	75	.26^{2}	.28^{2}	.25^{2}	.28^{2}	.31^{2}	.27^{2}	.29	.24	.26^{2}	.23	.24^{2}	.29^{2}
Maracaibo	Bag	125	.15	.16	.13	.18^{2}	.12^{2}	.15^{2}	.17^{2}	.16^{2}	.14	.19^{2}	.15^{2}	.17
Rio	"	125	.16^{2}	.14^{2}	17^{2}	.14^{2}	.11^{2}	.15^{2}	.14	.19	.16^{2}	.20	.18^{2}	.13^{2}
W. Pepper	Box Pail	10 25	.27	.25	.32	.31	.28	.33	.28^{2}	.27^{2}	.28	.29	.31	.27
Cinnamon	Box Pail	10 25	.40	.38	.32	.36	.41	.37	.39	.42	.40	.35^{2}	.33	.34
Cloves	Box Pail	10 25	.23	.25	.18	.19	.22	.17	.21^{2}	.22^{2}	.22	.21	.19	.23
Nutmegs			.65	.67	.73	.69	.64	.68	.66	.63	.65	.69^{2}	.72	.71
Ginger	Box Pail	10 25	.29	.38	.43	.47	.51	.52	.49	.46	.53	.54	.48	.44

The small index figures used in the above price lists indicate "fourths." 25^{1} equals 25¼. 25^{2} equals 25½. 25^{3} equals 25¾.

Business Practice. — During the month, the student will handle all incoming papers and currency, attend to the banking, and issue all outgoing checks, bills, receipts, etc. It is expected that this work will be given most careful attention and that all business papers will be written with care and exactness.

TRANSACTIONS

No. 1 May 1, 19— — Henry F. Adams invests $10,000 in the business which he has just begun, which is credited to Henry F. Adams, Capital.

In addition to the cash book entry for the investment, a statement of the conditions under which the business was begun, including all particulars pertaining thereto, should be recorded on the first page of the May journal. This is in the nature of a historical sketch or introduction, and is of importance in opening any new set of books.

Deposit $9800 in bank.

No. 2 May 1 — The National Real Estate Company owns the building at 246 Main St. Your lease is at a monthly rental of $100. Pay the rent for May by check, take a receipt from the owners, and make the proper entry.

No. 3 May 2 — Bill of the Upton Coal Company for ten tons of coal is received. Pay by check and make proper cash book entry. Expense bills and bills for furniture, supplies, etc., bought for use in the business are not recorded in the purchases journal. This book is only for recording merchandise invoices.

No. 4 May 2 — Bought merchandise of West, Stone & Co. as per invoice. Verify extensions and enter in purchases journal.

No. 5 May 2 — Bought merchandise of L. Hennes & Co. Terms, 60-day note.

Write a note in favor of L. Hennes & Co. and make proper journal entry. File the note.

No. 6 May 2 — Bought merchandise of Shields Bros. as per invoice. Enter in purchases journal. As the terms are 2% cash, pay the invoice at once by check, deducting the discount. In making the cash book entry, remember to enter the full amount of the invoice in the Accounts Payable Dr. column, the discount in the Discount on Purchases column, and the amount of the check in the Net Payments column. (See page 83.)

No. 7 May 3 — Fill order of A. W. McKey, and make entry in the sales journal. In making out the bill, follow the form of the West, Stone & Co. invoice in transaction No. 4. Note the tabulation of pounds and prices. Regard this sale as sales No. 1, placing that number in the Sales No. column; also place the number in the upper left corner of the bill. Number each succeeding sale in consecutive order.

No. 8 May 3 — Fill F. C. Tenney's order. Terms, 2/10, n/30.

No. 9 May 4 — Check received from F. C. Tenney in payment of bill of the 3d less 2% discount. In making the cash book entry, remember to enter the full amount of the bill in the Accounts Receivable column, the discount in the Discounts on Sales column, and the amount of the check in the Net Receipts column. (See page 82.)

No. 10 May 4 — Fill Dickson & Young's order.

No. 11 May 4 — Bill of Scranton, Wetmore & Co. for blank books, stationery, and office supplies. Pay by check.

No. 12 May 5 — Bill of Hayden Furniture Company for safe and office furniture for use in the business. Pay the bill by check and make proper cash book entry.

No. 13 May 5 — The National Real Estate Company has offered the building at 246 Main St. for sale at $12,000 cash, and as Mr. Adams regards this a fair price, he has negotiated for its purchase. The rent paid May 1 is to be allowed to apply on the purchase price.

In order to make the cash payment, he has applied to the Commercial Bank for a loan of $5000. The bank is willing to discount Mr. Adams's note for that amount if he can furnish satisfactory personal security. James D. Branson, a business acquaintance of Mr. Adams, has agreed to indorse Adams's note for $5000, and this security is acceptable to the bank. The note is drawn for four months. Interest is charged by the bank for the full number of days that the note runs, and deducted from the face of the note, the account of Mr. Adams being credited for the net proceeds of the note.

Viewed from the standpoint of good business policy, this is an important transaction, involving a considerable outlay of capital and the establishment of credit relations with the bank. It therefore reflects the business ability of Mr. Adams, as in buying the property he has had to decide whether it would be better business policy for him to continue paying rent or to buy the property. In one case, he has his annual rental of $1200; in the other case, he has the interest on his investment, interest on borrowed capital, taxes, insurance, repairs, care of the property, etc. A simple arithmetical calculation would clearly show the advantage in a financial way of becoming his own landlord. In addition to the financial benefits, he must also consider the added prestige which comes of owning his own property, and the greater degree of permanency of his business in having an assured location.

A brief account of the transaction having been given, the student, before going any further, should review pages 19 to 22, particularly that part bearing upon the practice of a bank in discounting the note of a borrower. Instructions are there given about the manner in which such a note is written, the indorsement thereon, and the calculation of the discount.

The student may then carry out the details of the transaction in the following order:

(*a*) Write the note and present it to the instructor, who will either indorse it for Mr. Branson or arrange for such an indorsement.

(*b*) Reckon the discount, make out a discount memorandum, and indorse the note in blank. The proceeds of the note should be entered in the pass book, if one is being used, and should also be added to the balance on the reverse side of the stub of the check book; a proper explanation should be made of the check book entry. Discount memorandums will be found in your supply of business forms, and are self-explanatory.

Leave the note, with discount memorandum attached, at the school bank, if there is one, or place it in the Notes Payable File.

(*c*) A study of the transaction should be made to determine the accounts to be debited and credited, after which make the cash book entry. In the special column cash book which you are using, the face of the note should be entered in the Accounts Receivable column, and the interest charged by the bank should be entered in the Discount on Sales column, both amounts being starred in order to call attention to the items when closing the cash book at the end of the month. The net proceeds of the note should be entered in the Net Receipts column.

No. 14 May 5 — Draw a check in favor of the National Real Estate Company for the purchase price of the property, $12,000, less $100 rent which is to be applied on the purchase price. The deed for the property has been received and recorded in the office of the County Clerk, and filed by Mr. Adams. This necessitates the opening of an account with Real Estate, the function of which account is stated as follows:

REAL ESTATE

Dr:	Cr:
With cost of real estate, including land and buildings, bought, and all expenses incurred in passing papers, recording deed, obtaining abstract of title, etc. With improvements and additions which add to the original value of the property.	With cost of real estate sold, the profit or loss resulting from the same being credited or debited to a special profit and loss account.

The *balance* represents the cost of real estate owned, and is an asset.

A separate account should be kept with each parcel of real estate owned, the name given to the account usually indicating its location, as: 246 Main St., or Lakeville Apartments.

Make an entry in the journal adjusting the payment of rent of the 1st, in order that it may be shown on the books as applying on the purchase price of the property.

No. 15 May 6 — Bill from the lawyer who made a search of the title, passed the papers, made out the deed, and had it recorded. Pay the bill by check and make the entry for it. See rule above for debiting Real Estate.

No. 16 May 6 — Invoice of the E. Westen Tea & Spice Company.

No. 17 May 6 — Fill order from A. A. Knowles & Co. Note terms as requested in their order. Note accompanies order. Entries in purchases journal and journal.

No. 18 May 8 — Fill order from F. C. Tenney.

No. 19 May 8 FOURTH REPORT — Prove cash, fill out the report called for, and submit the report to the instructor for inspection.

No. 20 May 9 — Pay West, Stone & Co.'s invoice of April 30, taking advantage of the discount.

No. 21 May 9 — Fill order from Fletcher Bros. Terms, 2/10, n/30.

No. 22 May 10 — Invoice of merchandise received from Shields Bros.

No. 23 May 10 — Received check from Fletcher Bros. in payment of bill of the 9th, less 2%.

No. 24 May 11 — Received $200 in currency from Dickson & Young to apply on account of bill of the 4th.

No. 25 May 11 — Deposit $200 in currency and the checks on hand.

No. 26 May 12 — Fill A. W. McKey's order.

No. 27 May 14 — Mr. Adams draws by check $100 for personal use. Make the check payable to Henry F. Adams, and enter it in the cash book as a debit to Henry F. Adams, Personal account.

No. 28 May 14 — Mr. Adams has placed insurance of $5000 on his building and $3000 on his stock of goods in the Equitable Fire Insurance Company, for one year. Write a check for the premium of $200, $120 of which is premium on his building and $80 on his stock. Debit Insurance Prepaid.

This illustrates a special account kept with Insurance. When it is desired to carry this item in a separate account rather than charge it to General Expense, the function of the account is expressed as follows:

INSURANCE PREPAID

Dr:	Cr:
With cost of insurance placed upon real estate or other property.	At the time of closing the books with that portion of the insurance applicable to the period just ended, the corresponding debit being to General Expense, or, if a separate account is desired, to Insurance Expense.

The *balance* of the account shows the unexpired portion of the insurance and is an asset.

No. 29 May 15 — Fill the order from F. H. Randall & Co.

No. 30 May 15 — Received check from F. C. Tenney on account of bill of the 8th.

No. 31 FIFTH REPORT — Prove the cash and prepare the report called for.

No. 32 May 17 — Rice & Pond of Georgetown, Ohio, have sent you an order and have given satisfactory references. Bill them the goods at our regular terms.

These goods are shipped by freight and a shipping order would be filled out and given to the railroad company.

A *bill of lading* is an instrument issued by the transportation company to a shipper acknowledging the receipt of the goods and stating the conditions under which they will be carried. The bill of lading is of importance for the reason that its possession is regarded as evidence of ownership of the goods. Because the bill of lading stands for the goods, the title to goods in transit often changes hands through the negotiation of the bill. In order to facilitate such transfer and avoid loss and misunderstanding, a Uniform Bills of Lading Act was passed by Congress in 1908. This act designated two forms of such bills:

(*a*) A "straight" bill of lading, non-negotiable in form, to be used in connection with direct shipments, is made out in sets of three, consisting of the bill of lading, the shipping order, and the memorandum acknowledgment. The original of the set, or the bill of lading, is sent to the consignee, the shipping order is retained by the transportation company, and the acknowledgment is filed by the consignor. Goods shipped by "straight" bill of lading may be delivered to consignee without surrender of the bill of lading.

Straight Bill of Lading

Uniform Bill of Lading—Standard form of Straight Bill of Lading approved by the Interstate Commerce Commission by Order No. 787 of June 27, 1908.

Interstate Transportation Company

STRAIGHT BILL OF LADING—ORIGINAL—NOT NEGOTIABLE.

Shippers No. .....

Agents No. .....

RECEIVED subject to the classifications and tariffs in effect on the date of issue of this Original Bill of Lading,

at Philadelphia May 17, 19

from W. F. Adams the property described below, in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, consigned and destined as indicated below, which said Company agrees to carry to its usual place of delivery at said destination, if on its road, otherwise to deliver to another carrier on the route to said destination. It is mutually agreed as to each carrier of all or any of said property over all or any portion of said route to destination, and as to each party at any time interested in all or any of said property, that every service to be performed hereunder shall be subject to all the conditions, whether printed or written, herein contained (including conditions on back hereof) and which are agreed to by the shipper and accepted for himself and his assigns.

The Rate of Freight from .....

to ..... *is in Cents per* 100 *Lbs.*

IF..Times 1st	IF 1st Class	IF 2nd Class	IF Rule 25	IF 3d Class	IF Rule 26	IF Rule 28	IF 4th Class	IF 5th Class	IF 6th Class	IF Special per.....	IF Special per.....

(Mail Address—Not for purposes of Delivery.)

Consigned to Rice & Pond

Destination, Georgetown State of Pa. County of .....

Route, ... Car Initial ..... Car No. .....

NO. PACKAGES	DESCRIPTION OF ARTICLES AND SPECIAL MARKS	WEIGHT (Subject to correction)	CLASS OR RATE	CHECK COLUMN
15	hf. chts. Tea	1050		
8	bags Coffee	1045		
5	bxs. Pepper	55		
5	bxs. Cloves	55		

If charges are to be prepaid, write or stamp here, "To be Prepaid."

Received $..... to apply in prepayment of the charges on the property described hereon.

Agent or Cashier.

Per .....

(The signature here acknowledges only the amount prepaid.)

Charges Advanced:

$.....

W. F. Adams Shipper. ..... Agent.

Per R. T. Brown Per .....

(This Bill of Lading is to be signed by the shipper and agent of the carrier issuing same.)

(*b*) An " order " bill of lading is made out to " Order of ——— " and contains the provision that " the surrender of this original bill of lading properly indorsed shall be required for the delivery of the property." These bills are made out in sets of three, as in the case of the " straight " bill.

Order Bill of Lading

Book Form 44A-Dup.
10-15-20M Sets

Uniform Bill of Lading--Standard form of Order Bill of Lading approved by the Interstate Commerce Commission by Order No. 787 of June 27, 1908.

Interstate Transportation Company

Shippers No. _____

ORDER BILL OF LADING — ORIGINAL.

Agents No. _____

RECEIVED, subject to the classifications and tariffs in effect on the date of issue of this Original Bill of Lading,

at Philadelphia May 17, 191

from H. F. Adams the property described below, in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, consigned and destined as indicated below, which said company agrees to carry to its usual place of delivery at said destination, if on its road, otherwise to deliver to another carrier on the route to said destination. It is mutually agreed, as to each carrier of all or any of said property over all or any portion of said route to destination, and as to each party at any time interested in all or any of said property, that every service to be performed hereunder shall be subject to all the conditions, whether printed or written, herein contained (including conditions on back hereof) and which are agreed to by the shipper and accepted for himself and his assigns.

The surrender of this Original ORDER Bill of Lading properly indorsed shall be required before the delivery of the property. Inspection of property covered by this bill of lading will not be permitted unless provided by law or unless permission is indorsed on this original bill of lading or given in writing by the shipper.

The Rate of Freight from _____

to _____ *is in Cents Per 100 Lbs.*

IF...Times 1st	IF 1st Class	IF 2d Class	IF Rule 25	IF 3d Class	IF Rule 26	IF Rule 28	IF 4th Class	IF 5th Class	IF 6th Class	IF Special Per	IF Special Per

(Mail Address—Not for purposes of Delivery)

Consigned to ORDER OF First Natl Bank

Destination, Georgetown State of Pa. County of _____

Notify Rice & Pond

At Georgetown State of Pa. County of _____

Route _____ Car Initial _____ Car No. _____

NO. PACKAGES	DESCRIPTION OF ARTICLES AND SPECIAL MARKS	WEIGHT (Subject to Correction)	CLASS OR RATE	CHECK COLUMN
15	hf. chts. Tea	1050		
8	bags Coffee	1045		
5	bxs. Pepper	55		
5	bxs. Cloves	55		

If charges are to be prepaid, write or stamp here "To be Prepaid."

Received $_____ to apply in prepayment of the charges on the property described hereon.

Agent or Cashier.

Per _____

(The signature here acknowledges only the amount prepaid.)

Charges Advanced:

$ _____

H. F. Adams Shipper. _____ Agent.

Per R. J. Brown Per _____

(This Bill of Lading is to be signed by the shipper and agent of the carrier issuing same.)

Transportation companies make out the bills of lading for single shipments, but the business house making frequent shipments usually obtains a supply of the forms from the transportation company, the forms being made out in the shipping department of the company. The two forms of bills of lading are shown on pages 95 and 96.

No. 33 May 18 — Give E. Westen Tea & Spice Co. a check for $800 to apply on account of invoice of the 5th.

No. 34 May 18 — A telegraph order has been sent to West, Stone & Co. for certain merchandise which is needed immediately. Pay the charge of 50¢ for the telegram in currency, and make proper entry.

No. 35 May 20 — Fill the order of E. Mason & Co. of Milford, Ohio; terms, 30 days net.

No. 36 May 20 — Pay Allen & Parker's bill by check. As this is an item of expense incurred in connection with the real estate, debit Real Estate Expense.

No. 37 May 20 — Received note from Dickson & Young, to apply on account.

No. 38 May 20 — Fill Dickson & Young's order of this date; terms, on account.

No. 39 May 21 — Telegraph order from James H. Vincent; bill the goods Net Cash. The goods are sent by express collect.

No. 40 May 22 — Fill Rice & Pond's order; terms, on account. Make entries for the sale and for the check received on account.

No. 41 May 23 — Invoice of West, Stone & Co. for goods ordered on the 18th.

No. 42 May 23 — Invoice of Charles K. Fox.

No. 43 May 23 — Cash sale to G. H. Thomas of a sample lot of goods. As this sale is not to a regular customer, make the entry directly in the cash book, crediting Sales.

No. 44 May 23 Sixth Report.

No. 45 May 24 — The express company remits for the goods shipped to J. H. Vincent on the 21st by express money order, less 25¢, their charge for collection. Vincent should be credited for the full amount, $10, and General Expense debited on the credit side of the cash book for the collection charges.

No. 46 May 24 — A telegraph order has been sent to L. Hennes & Co. for certain merchandise which is needed immediately. Pay the charge for the telegram, 35¢ in currency.

No. 47 May 24 — Fill this order from A. A. Knowles & Co., at the usual terms.

No. 48 May 25 — Deposit the checks and money order on hand, and $100 in currency.

No. 49 May 25 — Send E. Westen Tea & Spice Co. check for $400 to apply on account.

No. 50 May 26 — Invoice of L. Hennes & Co. ordered on the 24th.

No. 51 May 26 — Fill the telegraphic order from E. Mason & Co. at usual terms.

No. 52 May 26 — Received check from A. A. Knowles & Co. in payment of note due to-day with interest.

No. 53 May 26 — Pay the invoice of Charles K. Fox of the 23d by check less discount.

No. 54 May 26 — Fill the order from S. E. Kingsley, a new customer. Usual terms.

No. 55 May 27 — Received check for $600 from A. A. Knowles & Co. to apply on bill of the 24th. The terms of sale were 2/10, n/30, and as the term of discount has not yet expired, they ask to be allowed 2% discount on as much of the bill as this check will pay, they being unable to pay the entire bill at this time. Making allowance for the discount of 2%, 98¢ will cancel $1.00 of the original bill; hence $600 will cancel such a part of the original bill as is found by dividing $600 by 98¢. A. A. Knowles & Co. should be credited for the quotient so found, in the Accounts Receivable column. The amount of the check should be entered in the Net Receipts column, and the discount, the difference between the two items, in the Discount on Sales column.

No. 56 May 28 — Fill order from E. Mason & Co.; usual terms.

No. 57 May 28 — Invoice of merchandise received from Charles K. Fox.

No. 58 May 28 — Received check from S. E. Kingsley for the trial shipment of the 26th less discount.

No. 59 May 29 — Invoice received from West, Stone & Co.

No. 60 May 29 — Send a check for $500 to Shields Bros. to apply on account of invoice of the 6th inst.

No. 61 May 30 — Pay bill of the City Carting Company by check, charging Freight and Cartage.

No. 62 May 31 — Note received from A. W. McKey with interest to apply on his account.

No. 63 May 31 — Deposit all checks and currency on hand.

No. 64 May 31 — Pay invoice of West, Stone & Co. of the 22d less discount.

No. 65 May 31 — Mr. Adams has withdrawn on memorandum during the month for his personal use, merchandise to the amount of $30.

No. 66 May 31 — Draw a check in favor of Pay Roll for $200 covering expenses of clerks for the month, charging Selling Expenses; also draw a check for your own salary for the month, charging General Expense.

Make an entry in the journal debiting General Expense and crediting H. F. Adams Personal account for $200, the monthly salary which Mr. Adams allows himself, against which he draws for personal and family expenses.

No. 67 May 31 — Pay the following expense bills for the month of May by check:

Central Telephone Company $5.60. City Gas and Electric Company $8.75.

No. 68 May 31 — *Adjusting Entries.* The current entries have now all been made, but before closing the books for the month, certain adjusting entries need to be made in order to state correctly all items of expense for May.

(*a*) **Insurance.** — The insurance taken out May 14 runs for one year and hence can be considered as an item of expense only as it expires. The monthly charge for insurance on the building is $10, and on the stock, $6.67, based upon annual premiums of $120 and $80 respectively.

Make an entry in the journal debiting Real Estate Expense for $10, Selling Expenses for $6.67, and crediting Insurance Prepaid with the insurance expense applicable to May, making proper explanation. (While only a little more than half a month's insurance has expired, for convenience the amount charged off is the regular monthly charge.)

(*b*) **Depreciation.** — It is estimated that the furniture and fixtures have depreciated 10%. To show this depreciation as an item of expense or loss applicable to May, make an entry in the journal debiting General Expense and crediting Furniture and Fixtures with 10% of the cost, making proper explanation.

(*c*) **Interest Prepaid on Notes Payable.** — On May 5 when $5000 was borrowed from the bank our note was discounted for that amount; in other words, the bank deducted the interest on the loan for the entire time and credited our account with the proceeds. The interest, therefore, is prepaid on the note to September 5, the date of maturity. On May 31, the date of closing, the interest is prepaid for 97 days, and the interest for this time should, therefore, be set up as an asset. To do this, an entry should be made in the journal debiting Interest Prepaid on Notes Payable and crediting Interest on Notes Payable. In this way the Interest on Notes Payable accounts shows the interest applicable to the 26 days in May during which the note ran.

No. 69 May 31 — Monthly bank statement. (No entry at this time).

No. 70 Seventh Report — At this time, unless they have been called for earlier, pass in with your report all outgoing papers, including the contents of your files for Vouchers for Others, Cash Paid Out, and Notes Payable.

CLOSING THE BOOKS

Now that the transactions for May have all been recorded in their proper books, the next work is the closing of the books of original entry, posting from those books to the ledger, taking a trial balance, preparing financial statements, and closing the ledger. This work is all of the greatest importance and should be performed with attention to all details and with a clear understanding of each step.

To aid the student, the following procedure is suggested.

1 Balance the cash book. Be sure to show the footings of the special columns properly and to have all rulings as they should be. Study the model, pages 82, 83. In closing, the discount of $102.50 on the $5000 note should be shown as a debit to Interest on Notes Payable.

2 Close purchases and sales journals in accordance with former instructions.

3 Submit books for inspection and approval before posting.

4 Open the accounts named below in your ledger in the order given, leaving space as follows: allow one-half page for all accounts, except as otherwise noted.

The order of arrangement of accounts given is the one most generally followed in practice. Assets come first, followed by the liabilities, capital accounts, expenses and loss accounts, and accounts with profit or income.

Cash
Notes Receivable
Accounts with customers (alphabetically arranged)

After opening all accounts with May customers, leave three pages blank for additional accounts with customers in June. The June work is a continuation of the May work.

Real Estate
Furniture and Fixtures
Insurance Prepaid
Interest Prepaid on Notes Payable
Notes Payable
Accounts with creditors (alphabetically arranged)

Leave three blank pages after the accounts with May creditors for accounts with additional creditors in June.

Henry F. Adams, Capital
Henry F. Adams, Personal

Leave a page blank after the two accounts with Mr. Adams.

Purchases
Freight and Cartage
General Expense (one page)
Selling Expense
Real Estate Expense
Interest on Notes Payable
Discounts on Sales
Sales
Interest on Notes Receivable
Discounts on Purchases
Three pages left blank
Profit and Loss at top of page

After having opened the accounts as instructed above, index the ledger carefully on the

two pages set aside for that purpose. Instructions as to how to index the ledger will be given you by the teacher.

5 Post from all books of original entry. In posting, use care in paging, and place to the left of each folio the initial of the book from which the posting came, thus: Journal, J; Cash book, C; Purchases Journal, P; Sales Journal, S.

6 Take a trial balance on separate paper and submit it for inspection.

7 Prepare Profit and Loss Statement for the month of May. (As with the trial balance, the work included under 7, 8, and 9 should be done on separate journal paper first, submitted for inspection, and then copied into the blank book.)

The inventory of goods in stock taken at cost price amounts to $3372.55.

In preparing this statement the general form of statement used in other exercises should be followed. The gross profit on sales would be found in exactly the same way. To this would be added the profit from other sources, *i.e.*, Interest on Notes Receivable and Discounts on Purchases, giving Total Profit, from which would be deducted the accounts showing an expense or a loss, thus arriving at Net Profit. Show rate of profit on sales; on cost of sales; on investment.

8 Prepare balance sheet. The assets should be listed in the order in which they appear in the trial balance, the inventory of merchandise following Accounts Receivable; the same with the liabilities; and total liabilities followed by Net Worth. The Net Worth should be as follows:

Net Worth:			
H. F. Adams Investment		$10000.	
Add:			
Personal account, credit balance	$70.		
Net profit for May	xxx.xx	xxx.xx	$xx.xx
Total Liabilities and Net Worth			$xx.xx

9 Make closing entries. Close the net profit for the month into Adams's Personal account, after which the balance of the Personal account should be closed into H. F. Adams's Capital account, by an entry debiting H. F. Adams Personal and crediting H. F. Adams Capital. After the closing entries have been approved, they should be copied into the journal, beginning at the top of the page immediately following the current entries for May, and then posted to the ledger.

10 Rule and balance the ledger accounts and submit the ledger for inspection.

11 You may now look up voucher No. 69, which is your last incoming voucher for May. This is the statement rendered to Mr. Adams by his bank for the month.

The column headed "Deposits" shows date and amount of each deposit made during the month, together with the proceeds of notes discounted and credited to his account. The column headed Checks Paid shows the amounts and dates of payment of all checks drawn by Mr. Adams during the month and paid by the bank. The column headed Balance shows each new balance to the credit of Mr. Adams's account. The last amount in this column shows the balance in bank at the time of rendering the statement.

Your instructor will hand you at this time the checks which you drew against Mr. Adams's account during the month, with the exception of four checks which, according to the statement you have received, are outstanding; that is, they have not been deposited or cashed by the payees. The checks returned to you should agree with those listed in the Checks Paid column.

Ascertain the outstanding checks and prepare a statement reconciling this balance with the balance on the stub of your check book. (See page 68 for form of statement required.) If your statement agrees with the balance as shown by your check book, copy it on the reverse side of your check book stub.

Attach your canceled checks to the bank statement, fold it, and file in your Voucher File.

In connection with the form of bank statement, you should review pages 66, 67, and 68 of the text, in which other methods of rendering statements are discussed.

REVIEW QUESTIONS — May Set

1 Suggest different methods of recording purchases.

2 Describe the method of handling purchases through the purchases journal. Are purchases of furniture and fixtures, office supplies, coal, etc., recorded in the Purchases Book? Why?

3 When there is a choice of payment, which date should be recorded in the " When Due " column? Why?

4 Explain why the purchases journal is a form of journal.

5 How are postings made from the purchases journal?

6 Describe the modern practice in handling sales, giving the advantages over the old method.

7 In what way are the purchases journal and sales journal similar? Do they contain detailed records, or are they abstracts?

8 Why is the sales journal a form of journal? How are postings made from it?

9 What disadvantages are there in the simple form of cash book used in the April exercise?

10 How may these disadvantages be overcome?

11 Explain how the special columns may be used for transactions other than those with discounts on purchases and sales. Illustrate.

12 Give as many advantages obtained from the use of special columns as possible. Are there any disadvantages?

13 Is Insurance Prepaid account an asset or an expense?

14 Define a bill of lading.

15 What is a " straight " bill of lading? An " order " bill of lading? Which is negotiable?

16 What is the purpose of adjusting entries?

17 Give the functions of Real Estate account?

18 To what account should repairs to real estate be charged? Explain.

19 To what account should the cost of repainting a building be charged. Why?

20 If real estate lots are bought and held for investment, what account should be charged with taxes and carrying charges?

21 A merchant occupies for store purposes the first floor of a three story building, paying $100 a month rent. The second and third floors are divided up into ten offices each, those on the second floor renting for $12.50 per month and those on the third floor for $10 per month. He has an opportunity to buy the building for $30,000. Would it be a profitable investment in view of the following facts: the local tax rate is $18 per $1000; his capital is worth 5%; it is estimated that painting, repairs, etc., will average $200 a year; insurance is $210 a year?

DRAFTS AND ACCEPTANCES

A *draft* or *bill of exchange* is an instrument drawn by one person or firm upon another, ordering the payment of a certain sum of money to the person or firm named in the body of the instrument.

The *drawer* of the draft is the one who draws it and whose signature appears in the lower right corner of the instrument.

The *drawee* is the one on whom the draft is drawn; his name appears in the lower left corner of the instrument, preceded by the word " To."

The *payee* is the one to whom the instrument is made payable, the name of the payee appearing in the body of the instrument.

The drawer and payee are usually the same party; in other words, the drawer draws the draft in his own favor. In such a case the drawer is the creditor and the drawee, the debtor.

A draft may be drawn at sight, in which case it is due and payable upon being presented to the drawee; or it may be drawn payable in a certain time. Drafts are, therefore, designated either as " sight " or " time " drafts.

A draft differs from a promissory note in the following essential respects:

(*a*) A note is a *promise* to pay; a draft is an *order* to pay.

(*b*) A note is drawn *by* a person; a draft is drawn *on* a person.

(*c*) The one who draws or issues a note is the *debtor;* the one who draws a draft is the *creditor.*

(*d*) A promissory note is issued for the purpose of reducing a debt to a written form, or of borrowing money; a draft is drawn to transfer credit, or to effect prompt payment of an obligation.

The following illustrates the form of a two-party sight draft:

TWO-PARTY SIGHT DRAFT

$ 210.55 St. Louis, Mo., June 11, 19—

At sight Pay to the

Order of Ourselves

Two hundred ten 55/100 Dollars

Value received and charge the same to account of

To E. M. Leach

No. — Louisville, Ky. } Rice Bros. & Co.

If the drawee of a time draft wishes to honor it, he accepts it, which consists of writing or stamping across the face of the draft the word " Accepted " followed by the date of acceptance and the drawee's signature. The place of payment is also often designated. The acceptance is equivalent to a promise to pay the draft at maturity and therefore has the characteristics of a promissory note.

The following illustrates an accepted time draft:

ACCEPTED TIME DRAFT

$ 1420.60 Buffalo, N. Y., March 27, 19—

At thirty days' sight Pay to the order of

Ourselves

Fourteen hundred twenty 60/100 — Dollars

Value received and charge to account of

To W. E. Carey & Co.

No. Erie, Pa. Thos. Green & Co.

If the draft reads so many days "after sight," the date of maturity is reckoned from the date of acceptance; if it reads so many days "after date," the time counts from the date the instrument was drawn, even though it is not accepted until a later date.

It is apparent to the student from the preceding discussion that the drawee is not obliged to accept a draft drawn upon him unless he has promised to do so. If, for any reason, he does not accept it, the instrument is returned as a dishonored draft.

As one of the forms of negotiable paper in common circulation, drafts are of the following different kinds and are used for the purposes defined:

(*a*) The *sight draft for collection* is commonly spoken of as a commercial draft. To illustrate, A is indebted to B for $100. The debt is overdue, and A has paid no attention to the statements which have been sent him. B thereupon draws a draft upon A in favor of his bank, and leaves the draft at the bank for collection. The bank sends notice to A by messenger, if he resides in the same city, informing him of the draft which it holds for collection and asking him to call at the bank promptly and honor it. If A does so, the amount, usually less a small fee for collection, is placed to B's credit, and he is notified of the fact. If the bank fails to collect, it is returned to B with notice of dishonor. If the drawee of the draft resides in another city or town, the draft is forwarded by the bank to its correspondent bank in that city, the collection being made through that bank. If collection is made, the amount is remitted to the first bank, which in turn credits the account of the drawer.

The effectiveness of this method lies in the fact that business men are careful not to do anything which will impair their credit with a bank. If a man dishonors a draft drawn upon him without apparently good reason, the effect upon his credit is unfavorable. He is well aware of this fact, and if he has respect for his credit rating he will, if possible, honor a draft drawn upon him for a legitimate debt.

Such a draft would be of the same form as the one illustrated on page 102, except that in most cases it would be made payable directly to the bank. If it were made payable to the order of the drawer, it would be indorsed over to the bank.

(*b*) A *draft with bill of lading attached* may be drawn at sight or made payable at a certain time after sight. By this means, the title to the goods covered by the bill of lading remains vested in the seller until the draft is paid or accepted.

This form of draft is commonly used in the shipment of grain, cotton, and certain other commodities, and is also generally employed in making shipment of the first order received from a customer where there has not been time to look up his credit rating, or in case a customer's credit is not good.

Under such circumstances, the goods are shipped and a bill is mailed to the customer; terms, Bill of Lading with Draft attached. A draft is then drawn upon the customer in favor of the seller's bank. The bill of lading, received from the railroad company over whose lines the goods are shipped, is attached to the draft, which is left at the bank with instructions that it be put through for collection. The draft, with bill of lading, is forwarded to a bank in the drawee's city. The drawee receives notice of the arrival of the draft, goes to the bank, pays the draft, if it is a sight draft, and receives the bill of lading, which he presents to the railroad company as evidence of his title to the goods. If the draft accompanying the bill of lading were drawn for a certain time, the drawee would accept the draft, but the bill of lading would not be released until the draft was paid, unless the bank had received instructions to release it upon acceptance of the draft.

(*c*) The *trade acceptance* is a form of bill of exchange authorized by the Federal Reserve Act and recommended by the Federal Reserve Board, by which open accounts may be readily converted into cash. It is an acknowledgment of an obligation and a promise to pay it at a certain time. A trade acceptance is defined by the Federal Reserve Board as "a bill of exchange drawn by the seller on the purchaser of goods sold and accepted by such purchaser."

There are many disadvantages in selling on open account. Payment of the account is easily deferred; if it becomes necessary to sue in an attempt to collect, the correctness of the book entries must first be proved; there is the expense of collection; the terms of sale are subject to abuse. All this results in making open accounts costly and unsatisfactory under many circumstances.

The trade acceptance is a means of avoiding these difficulties, in that upon making the sale a draft is drawn upon the seller, running for the term of credit which the seller allows, which draft the purchaser of the goods accepts in the manner explained above. The drawee becomes known thereafter as the acceptor, and the draft as an acceptance. The trade acceptance may be discounted at the bank of the seller, thus converting the sale into ready cash.

As the draft is drawn against an actual transaction arising in the ordinary course of business, it is regarded by the bank as a more attractive form of commercial paper than a promissory note, and hence commands a smaller discount rate. Furthermore, such an instrument is a two-name paper, for the reason that it carries the name of both the drawer and the acceptor.

While in Great Britain and in continental Europe almost every commercial transaction is financed by means of a time draft, the practice in the United States of drawing drafts against the sales of goods is still in its infancy. It is strongly felt by bankers and business men, however, that through the publicity and encouragement given to the practice by the Federal Reserve Board, it will in due time become the usual method of financing mercantile or manufacturing businesses. Such drafts do not differ in form from those already explained and illustrated on pages 102 and 103; the drawer may designate himself as the payee, or the draft may be drawn to the order of his bank, or of a private individual or firm.

(*d*) The *bank draft* is a form of draft used in remitting money in cases where it is inadvisable to send one's personal check, or where such form of remittance is required. A bank draft is drawn by one bank or banker upon another bank or banker to the order of a third person. The fact that it is drawn by one bank and is payable by another adds to the security of the instrument and gives it a more ready currency. It is always payable at sight.

A bank draft may be bought at any commercial bank, and may, at the request of the one who purchases the draft, be made payable in any of the larger cities in the locality to which it is to be remitted or in which it is to be used. If one has a "checking" account, and desires to procure such a draft, the usual practice is to draw a check payable, for example, to New York, or Boston, or Chicago draft; when this check is presented to the bank, a draft will be issued in exchange for it. If one does not have a checking account, the draft may, of course, be paid for in currency. The better practice is to have the bank make the draft payable to the order of the purchaser, who then indorses it to the person or firm to whom it is sent. Banks are able to issue such drafts for the reason that they have what is known as a "correspondent bank" in the principal cities in which they have deposit accounts. The bank which sells the draft, therefore, merely draws against its deposit in its correspondent bank.

The following illustrates the form of a bank draft:

BANK DRAFT

No. 569 Indianapolis, Ind., June 2, 19—

The Traders National Bank

Pay to the order of Emerson Bros. $590.50

Five hundred ninety 50/100 Dollars

To The Second National Bank
Chicago, Ill.

S. B. Page
Cashier

Entries for Recording Drafts and Acceptances

No entry would ordinarily be made by the drawer at the time of drawing a draft unless it were a memorandum in the journal noting that such a draft had been drawn.

Sight Drafts. — When notice is received by the drawer that a sight draft has been collected, an entry is made in the cash book crediting the drawee for the amount of the draft. If there has been a charge for collection, an entry is made on the credit side debiting General Expense or, if it is desired to make a separate classification of such items, Collection and Exchange. An entry is also made on the back of the stub of the check book under the entry for the last deposit, for the amount credited by the bank, with the proper explanation; as "*D'f't on A. B. Jones, 135.90.*" If there has been a charge for collection, short extend the face of the draft, and underneath the entry write, "*Less Col. .(00),*" and extend the net amount in the money column.

The drawee, upon paying a sight draft, makes a cash book entry debiting the drawer.

Time Drafts. — When a two-party time draft is accepted, the drawer makes a journal entry debiting Notes Receivable and crediting the drawee. The acceptance is returned to the drawer, who holds it until maturity unless the acceptance has been obtained through the agency of a bank, in which case the bank will usually hold the draft to maturity, notifying the drawer of its acceptance.

The drawee's entry upon accepting a time draft is a debit to the drawer and a credit to Notes Payable.

The use of the Notes Receivable and Notes Payable accounts for recording acceptances is justifiable because an acceptance received or issued has the essential characteristics of a promissory note in that it contains the written promise of the drawee to pay the instrument at a definite time. However, if trade acceptances are handled in sufficient number, separate accounts should be opened with Acceptances Receivable and Payable, or with Time Acceptances, thus making an entirely distinct classification of them.

Upon having an acceptance discounted at the bank, an entry is made debiting Cash for the proceeds, debiting Discount on Acceptances (or Notes Receivable) for the discount, and crediting Acceptances (or Notes Receivable) for the face of the draft. An entry is also made in the check book, as explained above.

If the drawer and the payee of a time draft are entirely distinct firms or individuals, as when A draws a draft upon B in favor of C, the drawer would debit the payee and credit the drawee; the drawee would debit the drawer and credit Notes Payable; the payee would debit Notes Receivable and credit the drawer.

The entry for a bank draft received is a cash book entry crediting the one from whom it is received; the entry for a bank draft remitted is a cash book entry debiting the one to whom it is sent.

It is thus apparent that in making all entries having to do with drafts and acceptances, one should remember that the relationship between the parties is simply that of debtor and creditor and the transaction is simply a case of discharging a personal obligation or debt. If this is kept in mind, no difficulty need be experienced by the student.

Exercises in Drafts

Exercise A

Emmons, Hyde & Co. of Chicago, Ill., have agreed to honor a sight draft for $600 drawn by E. L. Martin in favor of himself.

(*a*) Write the draft, dating it June 1.

(*b*) Make Martin's entry upon receipt of payment, June 3.

(*c*) Make Emmons, Hyde & Co.'s entry upon making payment June 2.

Exercise B

George C. Chase, Manchester, N. H., is indebted to Wm. Darling & Co., Boston, Mass., on open account to the amount of $273.60, which account is long overdue. Darling & Co. decide to draw at sight for the amount, leaving the draft at the First National Bank, Boston, for collection.

(*a*) Write the draft, dating it June 15, naming the bank as payee.

(*b*) The bank notifies Darling & Co. on June 20 of having made collection; the bank has credited their account, less 25¢ collection charges. Make Darling & Co.'s entry.

Exercise C

John Reynolds & Co., Chicago, Ill., sell to O. H. Waters, St. Louis, Mo., on May 10 a bill of goods amounting to $487.20. On May 31, Reynolds & Co. draw a 60-day draft in favor of themselves for the amount of the bill, which they indorse over to their bank, the Commer-

cial Trust Company. The bank receives Waters's acceptance to the draft on June 2, on which date it discounts the draft, placing the proceeds to Reynolds & Co.'s credit.

(*a*) Write the draft and indorse it to the bank.

(*b*) Make Reynolds & Co.'s entry of June 2.

Exercise D

Wm. Parsons & Co., Worcester, Mass., have drawn on you at sight as of June 6, 19—, through the Harvard National Bank for $650. You pay the draft June 7.

(*a*) Write the draft.

(*b*) Make entry of June 7.

Exercise E

You receive from F. W. Preston, Toledo, Ohio, a draft dated June 5, drawn at 30 days sight, drawn in favor of himself, for $500.

(*a*) Write the draft and accept it as of June 6.

(*b*) Make entry upon acceptance.

Exercise F

F. Kimble & Co., Concord, N. H., owe you on account, and they send you a 10-day draft for $2000, dated June 9, drawn on A. B. Collins, Pittsburgh, Pa. You obtain Collins's acceptance June 11.

(*a*) Write the draft and show Collins's acceptance.

(*b*) Make F. Kimble & Co.'s entry.

(*c*) Make A. B. Collins's entry.

(*d*) Make your entry.

Exercise G

On July 15 you receive a bank draft from C. Farnham & Co. for $172.60 in full payment of account. The draft is drawn by the Tremont National Bank, Hartford, Conn., upon the Simmons National Bank, New York. Make your entry upon receipt of the draft.

Exercise H

On May 10th, bill of goods is sold to Charles E. Blozer of Waterbury, Conn., to the amount of $52.75. A trade acceptance is drawn on the same date, running for sixty days, for the amount of the bill. On May 15 this acceptance is discounted at the Commercial Bank at 6%. Make the necessary entries.

Exercise I

On May 1, invoice is received from Henry Rider & Company for goods amounting to $750, terms 1/30, and a draft accompanies the invoice drawn for the net amount of the bill, running for 30 days. The draft is accepted by you and returned to Rider & Company. Make the necessary entries.

Exercise J

Desiring to make remittance of $500 to Thomas Wilbur of Atchison, Kansas, you purchase from your local bank a New York draft for that amount, giving a check drawn on the same bank in payment. Explain in what form the check would be drawn. State in general the form of the New York draft and make the necessary entry.

HENRY F. ADAMS & CO. BUSINESS

JUNE

Mr. Adams has succeeded in building up a good business in wholesale tea, coffee, and spices, and as he sees the opportunity for still further expansion, he is planning to add a full line of standard groceries. To do so, it is necessary that he have additional capital, and he has proposed to admit you as an equal partner.

After giving the matter due consideration and after going over with Mr. Adams the details of such an arrangement, it is agreed that you are to invest $12,000, thereby acquiring a one-half interest in the profits and the assets of the business. This means that the good will of the business which Mr. Adams established is estimated to be equal to the difference between the amount of his net worth at the end of May and your investment. This is later brought on the books by a journal entry, debiting Good Will and crediting Mr. Adams's Capital account for the difference. (See first transaction, page 110.)

Good will is the estimated valuation placed upon the patronage, reputation, favorable business connections, or desirable location of an established business. While it is difficult to place a value upon such an asset, yet it is an asset of unquestioned legal standing and is almost invariably taken into account in connection with the purchase or sale of a business. Good will would always be brought on the books for an amount equal to the difference between the net worth of the business, as shown by the books or by an inventory of the tangible assets which have been taken, and the purchase price agreed upon, or the amount of the investment of an incoming partner.

Salary Allowances. — As office manager of the new company you will receive a monthly salary of $125, while Mr. Adams's salary remains at $200 per month.

The firm name is to be Henry F. Adams & Company.

Articles of Copartnership. — It is customary and advisable in forming a partnership for a written contract to be drawn up, setting forth all the terms of the agreement, and signed by the partners. This agreement is legally known as Articles of Copartnership.

The following illustrates the form of such an agreement:

Form of Articles of Copartnership

Articles of Copartnership, made the first day of June, one thousand nine hundred and . . . , between John B. Lamson, of Manchester, N. H., of the first part, and Frank W. Garland, of Boston, Mass., of the second part, witnesseth as follows:

The parties hereunto, having mutual confidence in each other, do this day form with each other a copartnership under the firm name of John B. Lamson & Co., for the purpose of conducting a wholesale business in tea, coffee, spices, and general groceries, at 241 Chestnut St., Manchester, N. H., under the following terms and conditions, to wit:

First. *That the said John B. Lamson of the first part shall contribute the entire resources of his late business located at 241 Chestnut St., Manchester, N. H., as shown by his financial statement prepared May 31, 19—, less the liabilities, as shown by that statement, which liabilities are to be paid by the firm of John B. Lamson & Co. The total net investment of John B. Lamson, as shown by these statements, is $7245.*

Second. *The said Frank W. Garland of the second part shall contribute cash to the amount of $7245.*

Third. *The capital so formed is to be used and enjoyed in common between them for the prosecution and management of said business, to their mutual benefit and advantage.*

Fourth. *Both parties shall devote their entire time to the business, and shall share gains and assets equally, and bear losses equally. John B. Lamson is entitled to draw a salary of $225 per month, and Frank W. Garland is entitled to draw a salary of $200 per month from the funds of the business.*

Fifth. *The said John B. Lamson hereby guarantees that all notes and personal accounts due John B. Lamson, and invested by him in the firm of John B. Lamson & Co., shall be worth their face value, less any regular trade discounts to which they may be entitled.*

In Witness Whereof, *the parties hereto have hereunto set their hands and seals, in duplicate, the day and year first above written.*

JOHN B. LAMSON. [L. S.]
FRANK W. GARLAND. [L. S.]

The partnership is formed as of June 1. In your capacity as bookkeeper and office manager, you are to record all transactions for the month of June, after which the books will again be closed.

A partnership agreement should be full and explicit, and many other provisions than those stated above may be inserted, as the facts require.

Books of Account. — The same books of original entry as were used in May will be continued during June, and two new books will be added. These books are the Notes Receivable and Notes Payable books.

The Notes Receivable book contains a record of notes and trade acceptances received by the business; the Notes Payable book contains a record of all notes and trade acceptances issued. These books may be used as books of original entry, if desired, or as auxiliary books, supplementing the regular books of account.

If it is the general custom of the business to take notes or to obtain trade acceptances from customers, the Notes Receivable book would in most cases be used as a book of original entry. When so used, no entry for notes or trade acceptances received would be made in the journal. In posting from the book, when used as a posting medium, the footing of the amount column should be posted to the debit of the Notes Receivable account, while the individual items should be posted to the credit of the persons from whom received.

If notes and trade acceptances are issued in any number, the Notes Payable book would in most cases be used as a book of original entry. When so used, at the end of the month the amount column should be posted to the credit of the Notes Payable account and the individual items should be posted to the debit of the persons to whom issued.

Business Practice. — An important change made in the June work is that the business practice is discontinued, no business papers being received or issued; instead, full information regarding each transaction will be obtained from the textbook. This change is made because it is felt that by this time the student has obtained sufficient practice for the present in handling business papers, drawing checks, making out bills, etc., and that he is now able to concentrate his attention more particularly upon the technical phases of bookkeeping.

Posting. — It is advised that during the month of June the posting be done from day to day, or at least at frequent intervals. In practice, the posting is usually kept up to date, as in this way the work is evenly distributed during the month, the status of personal accounts is known at any time, and the postings follow each other in proper sequence. Preparatory to the June posting, the following accounts should be opened: An account in the ledger with Good Will, on the page preceding the Real Estate account; accounts with new customers, immediately following the May customers; accounts with new creditors, following the May creditors; an account with Fire Loss, on the page preceding Profit and Loss; a Capital and a Personal account with the student, on the page following the same accounts with Mr. Adams.

Transactions

June 1 — (*a*) As your investment of $12,000 entitles you to only a half interest in the business, it is necessary to raise the capital account of Mr. Adams to an equal amount in accordance with the explanation given above. Find the difference between your investment and the credit balance of Adams's Capital account after closing May 31, and make an entry in the journal debiting Good Will and crediting Henry F. Adams's Capital account for this difference, with the proper explanation.

(*b*) In beginning the June cash book, bring forward the balance as of May 31, entering it in the Net Receipts column, and draw a line beneath to cut it off from the receipts for the current month. Then make an entry for your investment crediting your Capital account.

June 1

Pay bill of Hatheway Bros., printers, for office supplies, $7.87.

Buy merchandise of City Mills Company, Brooklyn, amounting to $742; terms 3/10, n/30.

June 3

Pay invoice of L. Hennes & Co. of May 24, less discount.

Buy merchandise of Reynolds, Davis & Co., $1063.38; terms 2/10, net 4 mo.

June 4

You have taken out insurance for one year on your stock of goods for $5000 at a premium of 1%, which is paid in cash. (General Expense.)

The firm has outstanding a note for $1505 held by L. Hennes & Co. which is not due until July 1. L. Hennes & Co. are willing to accept a check in prepayment of the note and will allow us discount for the unexpired time. In entering the payment, it should be remembered that the face of the note is recorded in the Accounts Payable column and the discount in the Discount on Purchases column, both amounts being starred; the net amount is entered in the Net Payments column.

June 5

We are notified by our bank that a sight draft for $265 which we drew upon Rice & Pond on June 2 has been paid and the amount placed to our credit.

Sell A. W. McKey, 282 Elm St., City, a bill of goods amounting to $422.30; terms 1%, 30-day acceptance.

Sell F. C. Tenney, City, a bill of goods amounting to $278.72; terms 3%, 10-day acceptance.

Make the following payments:

E. Westen Tea & Spice Company, $200.
Charles K. Fox, invoice of May 28, less 3%.
West, Stone & Co., invoice of May 29, less 3%.

June 6

The draft drawn upon A. W. McKey for the amount of bill of the 5th, $422.30, less 1%, was accepted as of that date. Do not overlook the discount on sales as a part of the journal entry; make a record of the acceptance in the notes receivable book.

The draft drawn on F. C. Tenney on the 5th for the amount of bill, $278.72, less discount, has been accepted.

Receive invoice from West, Stone & Co. dated June 3 for $1146; terms 3%, 10-day acceptance. The draft drawn at 10 days for the amount of the invoice, less 3%, accompanied the invoice and has been accepted. Entry in purchases book, journal, and notes payable book.

June 7

Fill order from A. A. Knowles & Co., the bill amounting to $353.68; terms, on account. A check for $600 to apply on account accompanies the order.

Your bank discounts at 6% the two acceptances received on the 6th from A. W. McKey and F. C. Tenney, and places the net proceeds of each to your credit.

June 8

Pay invoice of City Mills Company of June 1, taking advantage of the discount of 3%.

Receive invoice of goods from City Mills Company for $1266; terms 3/10, n/60.

June 10

Pay invoice of Reynolds, Davis & Co. of June 3, less the discount.

Fill order received from E. Mason & Co. amounting to $572.07; terms 2/10, n/30.

June 11

Fill order from Fletcher Bros. for goods amounting to $601; terms 3% cash.

A. A. Knowles & Co. return merchandise billed to them on the 7th and ask to be allowed credit at the billed price, $43.60. Credit is allowed.

June 12

Receive check from Fletcher Bros. in payment of bill of June 11, less 3%.

Pay bill of the City Carting Company for freight and cartage to date, $86.20.

Fill order from F. H. Randall & Co. for goods amounting to $597.28; terms, on account. Check of $500 received with order to apply on account.

June 13

Receive invoice of Reynolds, Davis & Co. for $1027; terms 2/10, n/4 mo.

The acceptance in favor of West, Stone & Co. dated June 3 is due to-day. It was made payable at the bank and has been charged to your account as per notice received from the bank.

June 14

Fill order of Rice & Pond, for goods amounting to $854.15; terms, on account.

Receive note at 4 months dated June 12 from Rice & Pond to apply on account, bearing interest at 6%. Face of note, $1000.

Fill order of Thomas Varick & Co., Georgetown, for goods amounting to $563.06; terms 1%, 30-day acceptance.

June 15

Receive invoice from Smith, Perkins & Co. amounting to $841.80; terms 3/10, note at 30 days with interest. In consideration of your giving the firm an interest-bearing note, a discount of 3% is allowed. The note is issued for the net amount of bill.

Receive accepted draft from Thomas Varick & Co., covering their bill of June 14, less 1%.

Sell to Thomas W. Bowen & Co., 114 Central St., Dover, Ohio, a bill of goods amounting to $362.50; terms 2/10, n/30.

Pay roll to date as follows:

Office wages	$ 75.	(General Expense)
Store wages	150.	(Selling Expense)

June 17

Fill order of D. W. Perry & Co., Madison, Ohio, for merchandise amounting to $52.50; terms 2/10, n/30.

Fill order of Thomas W. Bowen & Co. for merchandise amounting to $575; terms 2/10, n/30. Freight of $5.60 prepaid. Charge Selling Expenses.

Receive an invoice from George C. Buell & Co., 19 Chambers St., New York, N. Y., for goods amounting to $1210; terms 1/30, n/60. Invoice is dated June 15.

Receive check from E. Mason & Co. in payment of their bill of June 10, less discount.

June 18

Send Shield Bros. a check in settlement of their account.

Pay invoice of the City Mills Co. of June 8, less discount.

June 19

Fill order from D. W. Perry & Co. for merchandise amounting to $614.46; terms 2/10, n/30.

Goods showing a cost of $32.60 included in the purchase from George C. Buell & Co. on June 15 were returned for credit, and a credit memorandum for that amount is received from them.

Fill order from F. H. Randall & Co. for goods amounting to $629.50; terms 2/10, n/30.

Receive check from F. H. Randall & Co. for $600 to apply on account, with the request that we allow them our usual discount on as much of the bill as this check will pay.

June 20

Receive an invoice of goods from Shields Bros. amounting to $686.25; terms 1/30, n/60.

June 21

Pay bill of City Carting Company, $76.27, for freight and cartage bill to date.

Receive invoice of merchandise from E. Westen Tea & Spice Co. amounting to $1990.60; terms, 30-day acceptance for $800, remainder on account 4 months.

June 22

Accept E. Westen Tea & Spice Co.'s draft at 30 days for $800 to apply on account of invoice of June 21.

Receive invoice of merchandise from West, Stone & Co. amounting to $1130; terms 2/10.

Pay Reynolds, Davis & Co.'s invoice of June 13, less discount.

Receive invoice of merchandise from Smith, Perkins & Co. for $3049.36; terms, cash $1000, 30-day note, $1000, balance on account. In compliance with the terms stated, send Smith, Perkins & Co. a check for $1000 and a promissory note for $1000.

June 24

Receive check from Thomas W. Bowen & Co. in payment of bill of June 15, less discount.

Fill order from Fletcher Bros. for goods amounting to $838.81. Being pressed for

cash just now, they give us their note at 30 days with interest at 6%, with the understanding that we allow them our usual discount of 2%. The note has been received.

Fill order from Thomas Varick & Co., Georgetown, for goods amounting to $510.04; terms 2/10, n/30.

June 25

Fill order from D. W. Perry & Co. for goods amounting to $434.35; terms 2/10, n/30.

Receive check for $500 from A. W. McKey to apply on account.

Sell bill of goods to Thomas W. Bowen & Co. amounting to $2170; usual terms.

June 26

On the evening of June 25 the property at 246 Main St. was badly damaged by fire. The contents of the safe, including cash, valuable papers, and books of account are found to be intact. The furniture and fixtures are a total loss.

The stock of goods was destroyed or damaged by fire, smoke, and water. In order to ascertain the loss suffered on the stock, an inventory of goods which must have been in stock at the time is prepared from the original invoices and duplicate bills. This shows that the estimated stock on hand at that time, reckoned at invoice cost, amounted to $8920.38. This inventory is accepted by the insurance company as a basis for adjustment of the loss. The insurance company grants us permission to sell the damaged stock to the best advantage.

In case of an extraordinary loss of this character, the loss and adjustment thereof should be taken care of through an account or accounts opened especially for that purpose, rather than by attempting to record the adjustments through the regular accounts. In this case an account should be opened with Fire Loss; the function of this account is stated as follows:

Fire Loss

Dr:	Cr:
With the cost value of merchandise, furniture, office supplies, delivery equipment, buildings, and other property damaged or totally destroyed by fire.	With insurance received in settlement of fire loss; with the amount realized from the sale of damaged goods, furniture, etc.

The *balance*, after all adjustments have been made, represents the actual loss due to the fire.

Upon the preparation of the inventory of goods in stock at time of the fire, an entry should be made in the journal debiting Fire Loss for the amount of the inventory, $8920.38, and crediting Purchases. This entry should be carefully explained. As a result, the cost of goods destroyed or damaged by fire is removed from the Purchases account, which account will then show by its balance the cost of goods sold to the time of the fire.

Fletcher Bros., after an examination of the stock of damaged goods, make us an offer of $1500 for the same, which we accept. This sale should be entered in the journal instead of in the sales book, as it does not represent a sale under normal conditions and at regular selling prices. If the student understands the above discussion bearing upon the treatment of adjustments due to a fire, no difficulty should be experienced in making this entry.

June 27

Receive check from A. W. McKey in payment of note of May 29 due to-day with interest.

Receive check from Fletcher Bros. for $1500 in payment of the special sale of June 26.

Receive check from Thomas W. Bowen & Co. in payment of their bill of June 17, less discount.

Receive check from D. W. Perry & Co. in payment of bill of June 17, less discount.

June 30

Receive a check from the Equitable Insurance Company for $8000 in full settlement of claims for loss by the fire. Of the amount received, $5000 is for insurance on the building, and $3000 for that on the stock.

Receive check from D. W. Perry & Co. in payment of bill of June 19, less discount.

Make an entry in the journal crediting the personal accounts of Mr. Adams and yourself with your monthly salary allowances. Your own salary is charged entirely to General Expense, but as it is estimated that Mr. Adams spends about one-half of his time on the road selling goods, half of his salary is charged to Selling Expenses, the other half to General Expense.

Pay roll to date as follows:

Office wages	$ 75.
Store wages	150.

Mr. Adams submits a bill for $87.50, traveling expenses for the month of June, which he has paid from his own funds, and which he asks to have credited to his personal account.

Pay freight and cartage bill to date, $214.85.

The following expense bills for the month are paid:

Central Telephone Company	$6.
City Gas & Electric Company	7.70
Adams & Brown, office supplies	3.65

Adjusting Entries. — (*a*) Make an entry in the journal charging Interest on Notes Payable with $25, the interest for one month on the $5000 note held by the bank, and crediting Interest Prepaid on Notes Payable.

(*b*) At the time of the fire, the insurance was prepaid on the building and the stock for several months, the amount of such insurance being carried in an Insurance Prepaid account as an expense item paid in advance. When the settlement was effected with the insurance company following the fire, the insurance policies became void, and the prepaid insurance must now be entirely absorbed as an expense. An entry should therefore be made in the journal debiting Real Estate Expense and Selling Expenses, and crediting Insurance Prepaid for the balance of each account.

(*c*) The furniture and fixtures represent a total loss and the account should be closed into Fire Loss.

(*d*) The land on which the building stood is valued at $6000; determine the loss on real estate due to the fire, taking into account the insurance received, and close the loss into the Fire Loss account. This leaves a balance in the Real Estate account equal to the value of the land.

Closing the Books

The books of original entry should now be closed. If the posting has been kept up to date during the month, the only postings which remain are the footings of the purchases and sales books, and of certain closing items in the cash book.

After completing the posting, a trial balance should be taken. This trial balance should be a summary of both May and June postings.

Following the trial balance, the work of closing the books should be taken up in the following order:

Profit and Loss Statement. — The operation of the business suffered serious loss and interruption due to the fire on June 25. In order to show all details of operating profit and of extraordinary losses due to the fire, it is suggested that the fire losses and the amount recovered be shown in a separate schedule or statement, the net result being carried to the Profit and Loss Statement proper.

The following outline of a special statement showing loss by fire is submitted for the student's guidance:

HENRY F. ADAMS & CO.

STATEMENT OF FIRE LOSS, JUNE 30, 19—

Cost of goods destroyed by fire		$.....
Less:		
Insurance received	$.....	
Sale of damaged goods	.....	
Net loss on merchandise		$.....
Furniture and fixtures, total loss		.....
Real estate cost	$.....	
Less:		
Estimated value of land	$.....	
Insurance received	.....	
Net loss on real estate		.....
Total fire loss		.....

The above would be followed by the Profit and Loss Statement proper which would consolidate all elements of profit and loss. The following outline is suggested for such a statement:

PROFIT AND LOSS STATEMENT, MONTH OF JUNE, 19—

Gross sales to June 25			$.....
Less:			
Returns			.....
Net sales to June 25			$.....
Deduct:			
Cost of goods sold:			
Inventory, June 1			.....
Gross purchases		$.....	
Less:			
Returns	$.....		
Cost of goods destroyed by fire	.....		.....
Freight and cartage			.....
Gross profit on sales			.....
			$.....
Add:			
Interest on notes receivable			$.....
Discounts on purchases			.....
Total profit			.....

Deduct:		
General expenses	$	
Real estate expenses		
Interest on notes payable		
Discounts on sales		
Net profit to June 25		
Deduct:		
Fire loss (see attached statement)		
Net loss for month divided as follows:		$
Henry F. Adams, one-half	$	
Student, one-half		

Balance sheet. — No special instructions are needed on the balance sheet. The same form should be followed as in former cases. The details of the net worth as they apply to the partners' accounts should be clearly and logically brought out.

The following illustrates the showing of net worth:

Net Worth:			
Henry F. Adams:			
Net Worth, June 1, 19—	$		
Add:			
Personal Accounts, Credit Balance		$	
Deduct:			
One-half net loss			
Net Worth			$
Student:			
Investment, June 1, 19—	$		
Add:			
Personal Account, Credit Balance		$	
Deduct:			
One-half Net Loss			
Net Worth			$

Closing entries. — The same general principles discussed in former exercises apply to the closing entries for June, and the entries should be made in the same manner, and afterwards posted to the ledger. The loss on real estate due to the fire and the total loss on furniture and fixtures should be closed into the Fire Loss account, and the Fire Loss in turn closed into the Profit and Loss.

Ruling the ledger accounts. — After posting the closing entries, all general ledger accounts should be ruled or balanced.

Take a proof trial balance.

FURNITURE BUSINESS — Single Entry

This exercise, while providing additional practice in bookkeeping, is designed to illustrate certain principles and processes not brought out in the other sets. The most important of these are:

(*a*) Single entry as applied to a mercantile business buying and selling on credit.
(*b*) Determining net profit from books kept by single entry.
(*c*) Changing from single to double entry.
(*d*) The Merchandise account instead of Purchases and Sales accounts.
(*e*) A single Expense account to which all business and operating expenses are charged.
(*f*) Closing the ledger by the " direct " or " cross-entry " method instead of through the journal.

Single Entry. — As defined in the early part of the text, single entry is a method of keeping books which is not based upon scientific principles; a method which may well be employed by any one not trained for bookkeeping work.

While single entry exists in various forms, depending upon the type of business or institution it serves, as applied to a mercantile business buying and selling on credit, it is usually defined as a method of keeping books by which only accounts with debtors and creditors are kept in the ledger. The main purpose of the method is accomplished if the merchant is able to determine from the books at all times the amount owing to him by customers, the amount of his indebtedness to creditors, and the state of his cash account.

Unlike double entry, the equation of exchange in a business transaction is not recognized in single entry, and hence a transaction is not looked upon as consisting of a debit and a credit item, or items, which must be equal to each other. The same principles apply however to debiting and crediting persons. When an entry is made for a transaction affecting a personal account, it is necessary to indicate whether the person is to be debited or credited by placing next to the name of the person " Dr.," if a debit, and " Cr." if a credit to the person or firm.

In the exercise which is to follow, a journal, or a day book, as it is most commonly called in single entry, and a cash book are the only books which will be kept during the first month's work.

A model of a single entry day book is shown on page 118.

The cash book which will be used during the first month is shown on page 119. This book is of a most elementary form, receipts and payments being entered on the same page, instead of on opposite pages of a double page book. Receipts are entered in the left-hand money column and payments in the right-hand column. No entries for cash received or paid need be made in the day book, debits and credits to personal accounts being indicated in the cash book.

Transactions

Using a day book and a cash book as explained above and illustrated on pages 118 and 119, record the following transactions for January:

January 1, 19— You have commenced a Retail Furniture business with the following investment: a stock of furniture, valued at $1968.75; office furniture, fixtures, and books, valued at $300; cash in the City National Bank, $1245.50.

Credit your capital account in the journal for the investment of merchandise and furniture and enter the credit for the cash invested in the cash book. (See model form of journal entry, page 118.)

Model Single Entry Journal

January 1, 19—

J. B. Allen	Dr.		225
Sold him on acct. 50 bbl. Flour @ 4.50			
8			
J. Grant & Co.	Cr.		198
Bought of them on acct. 600 bu. Oats @ .33			
25			
J. B. Allen	Dr.		237 50
Sold him on acct. 50 bbl. Flour @ 4.75			
27			
J. Grant & Co.	Cr.		500
Received note at 60 days to apply on a/c			
29			
C. B. Allen	Dr.		200
Gave note at 30 days to apply on a/c			

Model Form of Journal Entry

Jas. B. Houghton	Cr.		1750
Commenced the Furniture business, investing as follows:			
Cash in bank, as per C. B.	$460.		
Furniture valued at		1500	
Office furniture and fixtures		250	

Model Single Entry Cash Book

January, 19–

DATE		L.F.	Dr. or Cr.	ACCOUNT AND EXPLANATION	RECEIPTS	PAYMENTS
Jan.	1		Cr.	A. H. Harper Investment.	3000	
	2			Paid rent for January		75
	3			Bought of A. H. Roe for cash 200 bbl. Flour 3.90		780
	4			Sold W. D. Leach for cash 100 bbl. Flour 4.50	450	
	6		Dr.	A. H. Harper Private use		50
	13		Cr.	J. B. Allen Rec'd on acct.	100	
	13		Dr.	J. Grant & Co. Paid invoice of 1/8		198
	31			Paid Salaries and wages to date		60
	31			Balance		2387
					3550	3550
Feb.	1			Balance	2387	

January 1 Bought of the Grand Rapids Furniture Co., Grand Rapids, Mich., on account, 30 days, furniture as per invoice, $1468.20.

1 Paid freight on the above invoice, $62.25.

2 Sold Wm. M. Rand, on account, 1 parlor set, $65; 6 dining chairs at $2; 1 extension table, $15. (Enter in the journal, carrying each item into the first money column and with the total in the second column.)

3 Sold sundry items for cash, as per cash drawer, $104.50.

4 Sold Thomas W. Parsons, on account, 12 dining chairs at $1.50; 6 kitchen chairs at 75¢; 1 kitchen table, $2.50.

4 Sold E. M. Wardner, on account, 1 oak bedroom set, $55; 2 ash bedroom sets at $15; 1 leather couch, $45.

5 Bought of E. M. Farmer & Co., Detroit, merchandise as per invoice, $550. Gave them in payment your note at 30 days for $250; the balance on account, terms 4 mos., 5/10. (Make two separate journal entries, one crediting Farmer & Co. for the full amount, and the other debiting them for the note.)

5 Paid freight on the above invoice, $27.50.

6 Paid one month's rent, $60; also paid insurance premium, $30, 1% of insurance policy for $3000 on your stock of furniture.

6 Sold Thomas Hunter, for cash, 24 cane-seated chairs at 75¢; 3 settees at $2.25.

6 Sold Emma B. Sheridan, on account, 12 ash bedroom sets at $25; 12 cotton mattresses at $6; 4 dining tables at $12; 24 dining chairs at $1.50. Received cash, $150, to apply

on account. (Debit in the journal for the full amount; enter credit for cash in the cash book.)

Balance your cash in the cash book, writing the balance in red ink in the smaller column. Rule, foot, and bring down the balance to commence the next week. Your balance at the end of this week should be $1345. You may balance your cash in like manner at the close of each week.

8 Sold C. H. Stratton, on account, Elm House, 6 hair mattresses at $25; 2 oak bedroom sets at $40; 1 parlor set, $125; 2 French plate mirrors at $15.

8 Paid Grand Rapids Furniture Co., on account, $500.

8 Sold sundry items for cash, as per cash drawer, $46.50.

9 Sold Wm. M. Rand, on account, 2 oak bedroom sets at $45; 1 cherry bedroom set, $35; 2 hair mattresses at $30; 1 cotton mattress, $6. Received cash on account, $100.

10 Bought of E. F. Higgins & Co., Michigan City, Ind., furniture as per invoice, $498.75.

10 Paid freight on above invoice, $24.93.

11 Paid cash for books and stationery, $7.50; for a horse and delivery wagon, $275.

12 Sold Mrs. Edward Leary, on account, 6 ash bedroom sets at $20; 1 extension dining table, $12; 12 cane dining chairs at $1. Received cash to apply on account, $44.

12 Sold sundry items for cash, as per cash drawer, $28.75.

12 Received of Thomas W. Parsons cash in full of account, $25.

13 Sold Edward Strang, on account, 1 cotton velour covered couch, $18; 1 Morris chair, $12.50; 4 library chairs at $6.50; 1 library table, $30.

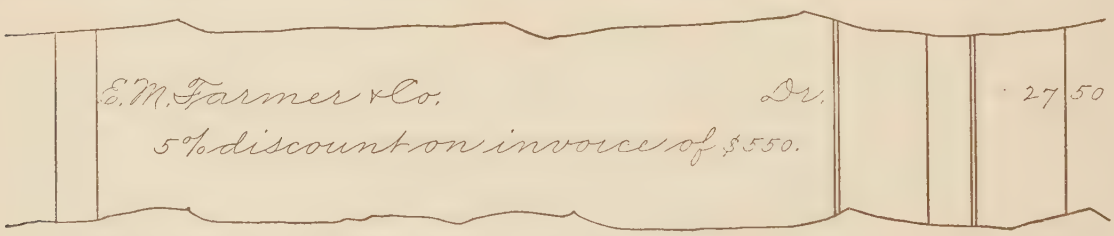
13 Paid for clerk hire, two weeks' salary, $30.

Balance your cash book, and bring down the amount, as on Jan. 6.

15 Received of C. H. Stratton his note at 60 days, to pay invoice of the 8th inst.

15 Paid the balance of E. M. Farmer & Co.'s invoice of the 5th inst., $300, less 5% of the full invoice for payment in 10 days. Discount, $27.50; cash paid, $272.50.

Debit them in the cash book only for the cash paid, and make a journal entry debiting them for the discount you are entitled to. The following illustrates the entry required.



15 Cash sales of merchandise, as per cash drawer, $48.50.

16 Bought of the Grand Rapids Furniture Co. merchandise invoiced at $1262.75.

16 Paid freight on above invoice, $63.13.

16 Sold Thomas W. Parsons, on account, 1 oak bedroom set, $75; 1 parlor set, raw silk, $120; 1 library lounge, $18.

17 Paid for advertising, $12.

17 Paid for shoeing horse, $1.25.

17 Sold Richard Vose, on account, 1 parlor set, $110; 1 library table, $20; 4 library chairs at $6; 1 screen, $5.50.

17 Cash sales of merchandise, as per cash drawer, $38.75.

18 Bought of E. M. Farmer & Co., Detroit, net 4 mos., furniture invoiced at $490.50.

18 Paid freight on above invoice, $24.50.

19 Bought of J. D. Lansing & Bros., on account, 90 days, furniture invoiced at $633.25.

19 Paid freight on above invoice, $31.66.

19 Sold Morris Chaney, on account, 1 plate glass beveled mirror, $22.50; 1 leather library chair, $25; 4 jardinière stands at $1.25.

19 Cash sales of merchandise, as per cash drawer, $47.75.

20 Sold H. M. Preston, on account, 1 parlor set, plush, $75; 1 oak bedroom set, $45; 1 pillar extension table, $12; six dining chairs at $1.50.

20 Bought of Phillips Chair Co., Phillipsburg, Ind., net 4 mos., 5/10, furniture as per invoice, $244.75.

20 Paid freight on above invoice, $12.24.

20 Paid for hay and oats, $7.50; clerk hire, $20; postage and express charges, $2.50.

20 Cash sales of merchandise, as per cash drawer, $69.87.

20 Sold Hunter & Allison, on account, 50 cane-seated chairs at $1; 50 school desks, individual lock, at $3.75; 1 teacher's desk, $12.50.

Balance your cash, as on Jan. 6 and Jan. 13.

22 Received of E. M. Wardner, to balance account of Jan. 4, cash, $30, and his note at 30 days with interest, $100.

22 Received of Mrs. Edward Leary $15 to apply on account.

22 Cash sales of merchandise, as per cash drawer, $62.

22 Received of Edward Strang $50, to apply on account.

22 Sold Emma B. Sheridan 1 parlor set, silk brocatel, $75; 2 card tables at $2.50; 2 mirrors at $3.

23 Hunter & Allison returned 10 cane-seated chairs at $1.

23 Bought of E. F. Higgins & Co. furniture as per invoice, $235.75.

23 Paid freight on above invoice, $11.75.

24 Accepted E. F. Higgins & Co.'s draft at 30 days for amount of invoice of Jan. 10, $498.75.

24 Sold C. H. Stratton & Co., on account, 5 oak bedroom sets at $35; 1 carved sideboard, $80; 6 card tables at $3.

25 Had C. H. Stratton's note of Jan. 15 discounted at the bank, and received cash for the proceeds. Face of note, $385; discount, 50 days. (Enter the net proceeds in the cash book and make proper explanation.)

25 Sold E. M. Wardner, on account, 1 library desk, $60; 1 revolving book case, $22.50; 1 revolving chair, $8.

25 Bought of the Phillips Chair Co. merchandise as per invoice, $192.85.

25 Paid freight on above invoice, $9.65.

26 Paid J. D. Lansing & Bros. for invoice of the 19th, less 5%. (Journal and cash book.)

26 Cash sales of merchandise, as per cash drawer, $84.60.

27 Received of Hunter & Allison, to balance account, cash, $40, and their note at 4 months, with interest.

27 Sold Edward Strang, on account, 6 dining chairs at $2.50; 1 pillar extension table, $18; 1 writing table, $6.50. Received on account $50.

Balance your cash book.

29 Sold Richard Vose, on account, 1 Morris chair, leather, $20; 1 rattan rocker, $7.50. Received $50, to apply on account.

29 Returned to the Phillips Chair Co. 24 cane-seated chairs at $1; 6 rockers at $2. These goods were not as ordered.

29 Cash sales of merchandise, as per cash drawer, $91.40.

30 Paid Phillips Chair Co. for invoice of Jan. 20, less 5%, $232.51.

30 Bought of J. D. Lansing & Bros., on account, merchandise as per invoice, $498.70. freight prepaid.

30 Received of H. M. Preston, on account, $75.

30 Sold Morris Chaney, on account, 1 office desk, roll top, $40; 1 office chair, $6.50.

31 Paid clerk hire to date, $30.

31 Cash sales, as per cash drawer, $62.87.

31 Sold Mrs. Edward Leary 1 parlor set, $55; 1 beveled mirror, 6.50. Received, to apply on account, cash, $25.

You may now balance your cash book, and submit your journal and cash book for inspection.

You may then open accounts in your ledger, four on each page, for all customers and creditors, one section of the ledger being set aside for customers and another for creditors; also open an account for yourself as proprietor.

Post all entries which show a debit or a credit to a personal account to the ledger.

Single Entry Financial Statements. — One serious objection to single entry is that no accounts are kept with the various classes of profits and of losses or expenses, and hence no Profit and Loss Statement can be prepared which would be at all descriptive of business operations.

The net profit is arrived at by deduction or by a comparison of the net worth at the close of a period with that at the beginning. The first step is to prepare a statement of assets and liabilities, the excess of assets over liabilities representing the net worth. A comparison is then made with the proprietor's investment or with his net worth at the beginning of the period. The following models illustrate the form of such statements:

STATEMENT OF ASSETS AND LIABILITIES, JANUARY 31, 19—

ASSETS		
Cash	$ 500.	
Notes Receivable	4000.	
Accounts Receivable	10000.	
Merchandise Inventory	20000.	
Total Assets		$34500.
LIABILITIES		
Notes Payable	$5000.	
Accounts Payable	9000.	
Total Liabilities		$14000.
A. H. Harper's Net Worth		$20500.

Statement of Net Profit for January 31, 19—

A. H. Harper:		
Net Worth January 31, 19—		$20500.
Deduct:		
Investment January 1, 19—	$20000.	
Less: Drawings	200.	19200.
Net Profit		$ 1300.

You may now prepare a statement of assets and liabilities and a statement of net profit for the month of January which you have just completed.

You have taken an inventory of merchandise, showing goods on hand to the amount of $5040.75; the horse and delivery wagon are valued at $275; office furniture and fixtures, $275; eleven months' unexpired premium on insurance policy, $27.50. Determine from your customers' and creditors' accounts in the ledger the amount due from customers and the amount owing to creditors. By an analysis of your transactions, determine also the amount of notes held and of notes outstanding.

Your net worth should be $3799.32. After finding the net profit, an entry should be made in the journal crediting your Capital account with the net profit as found. The following illustrates the entry as it would have applied to the model statements above:

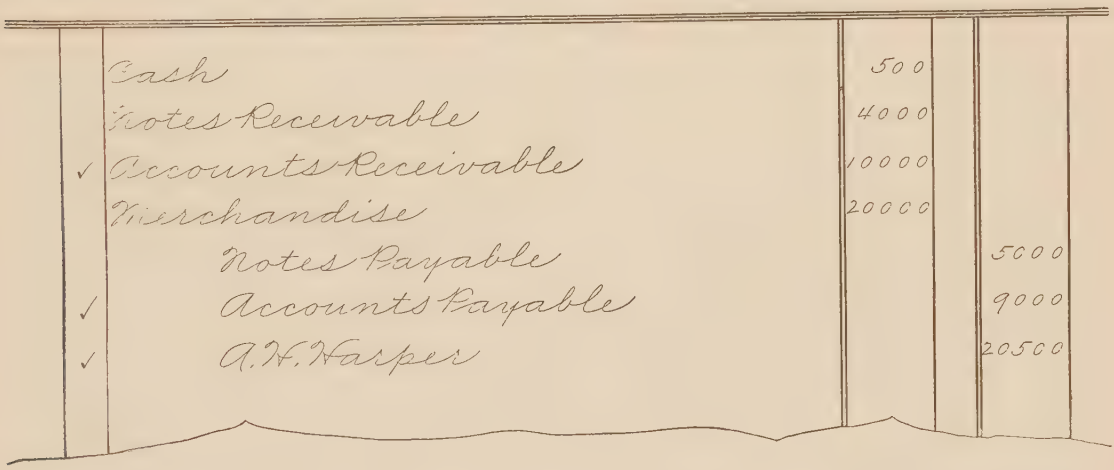
A. H. Harper Cr. 1300.

Net profit for the month of January.

This entry should then be posted and your capital account balanced.

Changing from Single to Double Entry. — After preparing a statement of assets and liabilities, it is a simple matter to change the books to double entry form. The process, which is exactly like an opening entry for a new set of books, consists in making an entry debiting all assets of the business, crediting the liabilities, and crediting the proprietor for the excess of assets over liabilities.

The form of entry which would be required in connection with the model statements given above for A. H. Harper would be as follows:



Accounts would then be opened in the ledger for Cash, Notes Receivable, Merchandise, and Notes Payable, and these items would be posted and paged. As the ledger already contains accounts with customers, creditors, and the proprietor, these items are merely checked as shown. This brings the ledger into balance and the work would proceed according to double entry principles.

As the February books are to be kept by double entry, you may now make an entry in your journal to open the books in double entry forms. Open the necessary new accounts, and post the entry. The horse and wagon will be debited to a Delivery Equipment account; the unexpired insurance should be debited to Expense.

Merchandise Account. — Many bookkeepers still use a single Merchandise account in which to record all purchases and sales of goods, instead of a Purchases and a Sales account as has been the practice in the preceding exercises. In a small business and where time is

taken to analyze the account at the end of a period, such an account may be used without its disadvantages becoming apparent.

When used, the function of the account is as follows:

MERCHANDISE

Dr:	Cr:
With purchases of Merchandise.	With sales.
With freight and cartage on goods bought.	With returned purchases.
With returned sales.	With goods taken from stock by proprietor.

The chief objection to the single account lies in the fact that debits to the account are at cost price and credits are at selling price, an entirely different basis. The difference between the two sides of the account therefore represents nothing more than the excess of cost over sales or *vice versa* and only when the account is analyzed and compared with the inventory may the results from trading be determined.

To show the actual working of the account a Merchandise account will be used with February work.

Expense Account. — A single Expense account will also be used in February, to which all operating expenses of the business will be charged. This illustrates a condition often found in practice, when in order to reduce the number of accounts no separation is made of the various classes of business expenses.

FURNITURE BUSINESS (Continued)

FEBRUARY

The books used in February will consist of the journal, cash book, purchases journal and sales journal. As no cash discounts occur in the set, the cash book may be of the elementary form used in the month of April. The purchases journal and the sales journal should be of the same form as those used in May and June. Entries will be recorded in these books in exactly the same way that they were in the former double entry sets.

The double entry cash book and the purchases and sales journal should now be prepared for use, the balance of cash being entered in the cash book under date of February 1.

Transactions

February 1 — Sold Hunter & Allison, on account, furniture as per bill, $235. Cash sales for day, $56. (Credit Mdse. account for all cash sales.)

2 Sold Wm. M. Rand, on account, furniture as per bill, $193.50; received his check for balance of January account, $183.

Paid Grand Rapids Furniture Co., on account, $700.

3 Received of Emma B. Sheridan, on account, $400; also filled her order for furniture, on account, $95.

3 Paid cash for salary of clerk and salesman, $30.

3 Bought of E. M. Farmer & Co., on account, goods as per invoice, $285; paid freight on same, $17.85. (Debit Mdse. account with freight inward.)

3 Sold C. H. Stratton, on account, furniture as per bill, $225; received his check for $173, and 30-day note for $100 for bill of January 24.

5 Paid your note in favor of E. M. Farmer & Co., due to-day (Feb. 4, Sunday), $250.
5 Received cash from Morris Chaney in full, $99.
5 Paid for shoeing horse, $1.25.
5 Sold H. M. Preston, on account, furniture as per bill, $297.50.
5 Wm. M. Rand returned goods billed at $20, for which give him credit.
6 Received of Richard Vose $100 to apply on account.
6 Sold Edward Strang, on account, mdse. as per bill, $242.50.
6 Paid one month's rent, $60.
6 Sent E. M. Farmer & Co. check for $490.50 for invoice of January 18.
6 Cash sales for day, $64.
7 Sold Morris Chaney, on account, furniture as per bill, $405.
7 Paid telephone bill for January, $4.50.
7 Returned goods costing $12.50 to E. M. Farmer, with a letter requesting credit for them, as they were damaged when received.
9 Received of Thomas W. Parsons, in full, $213.
9 Sold Mrs. Edward Leary, on account, goods as per bill, $165.
9 Bought of Grand Rapids Furniture Co. furniture as per invoice, $557.50 (freight prepaid); sent them your 2-months' note for $700 on account.
9 Paid for overhauling and repairing typewriter, $5.
10 Sold Richard Vose, on account, furniture as per bill, $215.
10 Received cash from E. M. Wardner, for bill of January 25, $90.50.
10 Paid salaries for week, $30.
10 Cash sales for the day, $28.50.
12 Sold E. M. Wardner, on account, merchandise as per bill, $142.50.
12 Bought of E. F. Higgin & Co., on account, furniture as per invoice, $562.50; paid freight on same, $33.40.
13 Paid for office supplies, $3.50.
13 Sold Thomas W. Parsons, on account, furniture as per bill, $402.
14 Received H. M. Preston's check for $350 on account.
14 Sold A. W. Crampton, on account, furniture as per bill, $475.
15 Paid Phillips Chair Co. balance of account, $156.85.
15 Sold Wm. M. Rand, on account, mdse. as per bill, $365.
15 Cash sales for the day, $42.50.
16 Received of Mrs. Edward Leary $286.50 in full.
16 Paid for painting display sign, $15.
17 Paid J. D. Lansing & Bros. $300 on account.
17 Received check from A. W. Crampton, to apply on account, $400.
17 Paid salaries for the week; $30.
17 Bought of Davenport & Kenrick furniture as per invoice, $812.50.
19 Sold Edward Strang, on account, furniture as per bill, $337.50.
19 Received of Hunter & Allison for bill of February 1, $235.
19 Cash sales for the day, $42.
20 Received check from Edward Strang, on account, $300.
20 Bought of J. D. Lansing & Bros., on account, furniture as per invoice, $375; paid freight, $42.15.
21 E. M. Wardner's note for $100 was due to-day. Received his check for the note and interest.
22 Sold C. H. Stratton, on account, furniture as per bill, $450.

22 Bought of Phillips Chair Co., on account, furniture as per invoice, $337.50; paid freight on same, $14.90.

23 Our 30-day acceptance in favor of E. F. Higgins & Co. falls due to-day. We have received a notice from the First National Bank stating that they are holding the draft for payment over their counter. Sent a check to the bank for $498.75 to take up the acceptance.

24 Paid salaries for week, $30.

24 Sold H. M. Preston, on account, furniture as per bill, $366.50.

25 Received cash from C. H. Stratton for bill of February 3.

25 Cash sales for the day, $36.50.

26 Bought 6 tons of coal at $8.50.

26 Paid E. F. Higgins & Co., on account, $400.

26 H. M. Preston returned goods billed at $18.50, claiming that they were not ordered; gave him credit and wrote him a letter to that effect.

27 Student withdrew from stock, for personal use, a desk costing $15.

27 Received of Wm. M. Rand, on account, $73.50.

27 Sold Richard Vose, on account, furniture as per bill, $97.50.

27 Bought of E. M. Farmer & Co., on account, furniture as per invoice, $625; freight paid on same, $24.10.

28 Paid lighting bill for month, $3.60.

28 Bought postage stamps, $4.00.

28 Sold A. W. Crampton, on account, furniture as per bill, $528.

28 Bought of Grand Rapids Furniture Co., on account, furniture as per invoice, $856.

28 Cash sales for the day, $24.

After all transactions for February have been recorded, close the cash book, purchases book, and sales book; post, and take a trial balance. Post the footings of the purchase journal and the sales journal to Mdse. account.

An inventory of stock on hand amounts to $4692.80; delivery equipment and furniture and fixtures are to be carried at the cost prices; unexpired insurance amounts to $24, this being an inventory to the Expense account.

Prepare a Profit and Loss Statement and a Balance Sheet in the usual form. In order that the Profit and Loss Statement may show all details regarding purchases and sales, the Merchandise account should be analyzed. The debit footing of the account shows total purchases plus sales returns, the items of sales returns should therefore be deducted from that footing in order to get actual purchases.

Likewise the credit footing includes total sales plus purchase returns and allowances; any such items should therefore be deducted from that footing in order to obtain actual sales.

Closing the Ledger — "Direct" Method. — In former exercises the ledger has been closed through the journal by means of a series of entries made therein, which, when these entries have been posted to the ledger, results in closing all profit and loss accounts.

Another method used by many bookkeepers is that of making the transfer of profit or loss from their several accounts directly to the Profit and Loss account in the ledger. For example, the profit on merchandise is entered on the debit side of the Merchandise account (in red ink, if red ink is used by the bookkeeper); the profit is then transferred to the credit side of the Profit and Loss account, the item being properly paged in both the Merchandise and the Profit and Loss accounts; the Merchandise account is then balanced by entering the inventory on the credit side, thus bringing the debit and credit sides of the account into balance; the account is then single and double ruled and the inventory is brought down on the debit side under the beginning date of the new period.

L. M. Harris 1

Proprietor

19–					19–				
Jan.	25		7	200	Jan.	1		1	6500
				852 97		31	Net Gain	3	552 97
				7052 97					7052 97
					Feb.	1	Present Worth		6852 97

2

Merchandise

19–					19–				
Jan.	3		1	1836	Jan.	4		2	6226
	10	6320.30	4	1260		5		3	598
	15	3861.72	5	791 50		8		4	742
	20	2458.58	6	1897 60		12		4	312 87
	25		7	63 45 20 30		16		5	644
				751 67		26		7	9 86 1 72 42 2 5
				7071 97					7071 97
Feb.	1	Inventory		32 25					

3

Expense

19–					19–				
Jan.	5		2	125					
	10		4	52 50					
	13		5	21 20					
				19870					19870

Profit & Loss

19–					19–				
Jan.	31	Expense	3	19870	Jan.	31	Mdse.	2	751 67
				751 67					751 67

In like manner, the loss on expense is used to balance the Expense account, the amount of the loss being transferred to the debit side of the Profit and Loss account. After all losses and gains have thus been transferred to the Profit and Loss account, the difference between the two sides of the account will show the net profit or the net loss, which is in turn transferred to the Proprietor's account.

It will be seen that exactly the same principle applies to the closing of the ledger, regardless of which method is used, the two methods merely representing different applications of this principle.

A ledger which has been closed by the direct method is shown on page 127.

You may now close the February ledger by this method. Observe that in closing the Expense account there is an inventory to the account of unexpired insurance, $24. You will first enter the loss on the credit side, transferring it to the Profit and Loss account, after which enter unexpired insurance, $24, under date of February 28 on the credit side; this balances the account, which is then ruled, and the unexpired insurance is brought down on the debit side of the account under date of March 1. The Interest account, being a profit and loss account, is also closed into the Profit and Loss account.

After completing the closing of the ledger, the work for the entire exercise should be submitted for examination.

SUPPLEMENTARY EXERCISES

These exercises in journalizing and those which follow on the cash book and in the preparation of financial statements, are to be used as may be desired for review work and for additional drill, while the longer sets covering the months of April, May, and June are being written up.

Exercises in Journalizing

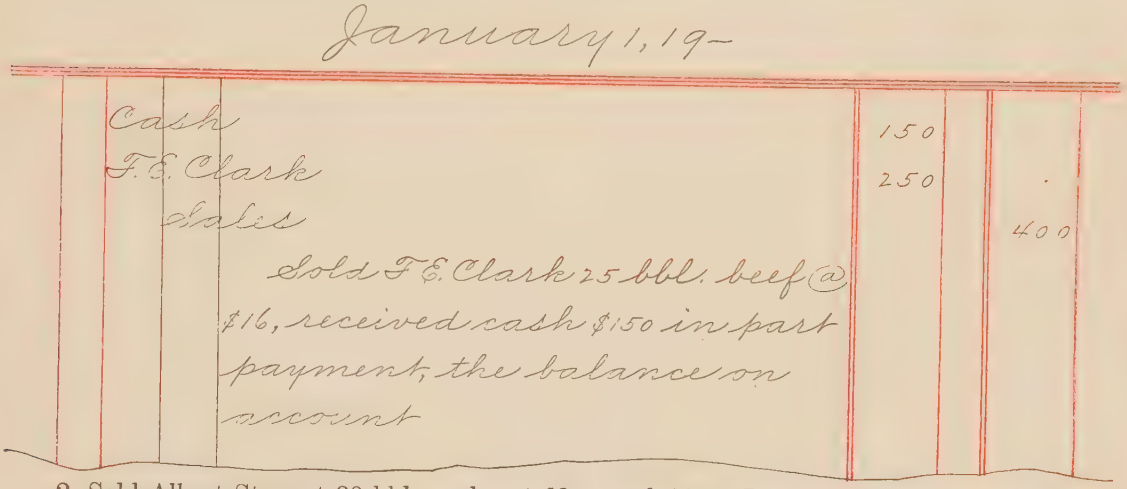
Exercise 1

A transaction may require an entry of only one debit and one credit, or the entry may be compound in form, consisting of one debit and two or more credits, or two or more debits and one credit, or two or more of both debits and credits; that is, there must always be a separate debit or credit to indicate the classification of accounts affected by the transaction. If more than two accounts are involved, the entry will consist of more than one debit and one credit.

This exercise is for the purpose of providing practice in journalizing transactions of this character.

January 1, 19— Sold F. E. Clark 25 bbl. beef at $16; total, $400. Received in part payment cash, $150. Balance on account, $250.

The following illustrates the entry required:



2 Sold Albert Stewart 30 bbl. apples at $3; total, $90. Received in part payment cash, $55. Balance on account, 30 days, $35.

3 Sold J. D. Lawrence 55 bbl. flour at $7, 25 bbl. beef at $16.50; total, $797.50. Received in payment, cash, $275, and his 30-day note for the balance, $522.50.

4 Sold D. C. Schneider 100 bbl. apples at $3.50, 50 bu. potatoes at 80¢; total, $390. Received in payment his 30-day note, $100; John Smith's 10-day note, $80; cash for the balance, $210.

5 Frank Miller, being unable to pay in full his 6 months' note for $1000 which you hold and which was due to-day, arranged with you to renew one half of the note for 30 days. Consequently, he gave you, for his old note, $500 cash and a new note for $500.

The entry required is shown on page 130.

6 Bought of Marion Douglas 250 bbl. flour at $7; total $1750. Gave in part payment cash, $875, and my 60-day note for $500. The balance, $375, is to remain on account.

8 Bought of Henry Lindlinger 100 bu. peas at $2.35, 25 bu. clover seed at $4.50; total, $347.50. Delivered in payment my 30-day note for $200, and cash for the balance, $147.50.

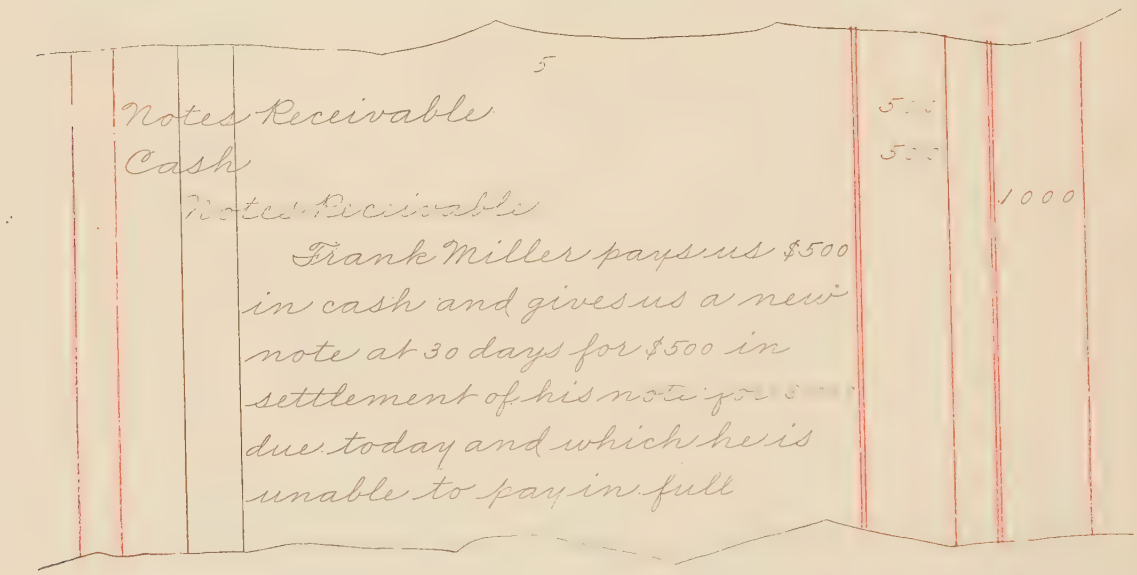
9 Received cash, $750, from Benj. D. Collins in payment of balance due on his account, $150; in payment of his note due to-day, $300; and also to pay for bill of goods sold him to-day as follows: 5 hf. cht. Japan tea, 375 lb., at 30¢ per lb.; 10 mats Java coffee, 750 lb., at 25¢ per lb.; total, $300.

9 Bought of C. N. Brown 10 bbl. sugar, 2600 lbs., at 8¢, $208; 5 shares City Bank stock at $125, $625. Gave in part payment cash, $200, and my note for $200; the balance to remain on account, $433. (Debit Investments or Securities Owned for the cost of City Bank stock.)

10 Bought of John Hamilton a house and lot for $5000; also 500 bbl. apples at $4, $2000. Gave in payment John Smith's note for $1500; my 60-day note for $3000; and cash, $2500.

11 Sold Norris Bros. 1000 bu. wheat at $1; total, $1000. Received in payment my note, now due, for $500, and John Brown's note for $525. Paid Norris Bros. the difference in cash, $25.

12 The proprietor owed Henry Nussbaum $500 on a note, and $300 on account. Both amounts being now due, he paid them by delivering to Nussbaum cash from the business, $700, and from his private funds, $100.



Exercise 2

January 1, 19— Bought merchandise of J. M. Gartland, on account, per bill rendered, $946.53.

2 Sold C. W. Wallace, on account, merchandise, $123.46.

3 Paid rent for one month by check, $65.

4 Gave J. M. Gartland my note at 10 days, for $500, to apply on account.

5 Paid J. M. Gartland cash, on account, $100.

6 Received note at 10 days, for $750, from C. W. Wallace, to apply on account.

7 Sold S. M. Blue merchandise per bill, $192.30, and received in payment a note at 30 days.

8 Transferred Wallace's note by indorsement to J. M. Gartland, at its present value, to apply on account.

9 Bought a bill of merchandise, amounting to $652, from Chase & Co., giving in payment my note at 10 days.

10 Paid freight on above bill, $4.35.

11 Bought of W. A. Clarke Coal Co. 10 tons coal at $8.25, paying cash.

12 Received from Smith Bros. $750, on account.

14 Paid my note due to-day, favor J. M. Gartland, $500.

14 Sold Alfred Cook, on account, 6 bbl. flour, at $7; 100 lb. lard, at 19¢; 250 bushels potatoes, at 75¢.

15 Borrowed $500 from J. M. Lambie, on my note at 30 days.

16 Paid gas bill for the month by check, $7.50.

17 Prepaid my own note by check; face of note, $750.60; period of discount, 35 days; rate of discount, 3%.

18 Received a check from Arthur Grant, to apply on account, $343.94.

19 Bought merchandise for cash, $221.16.

20 Alfred Cook has returned 2 bbl. flour as damaged and unsalable; we have credited him with them at the price he paid.

21 Sold M. A. Bailey 9 bbl. flour at $7; and 11 bbl. pork at $13.50. Received a check for $100 in part payment, the balance on account. (One entry.)

22 Received from Steiger & Co. note of Andrew Dobbie for $350, at its face value.

Exercise 3

February 1, 19— Sold merchandise to James Howard for his note at 10 days, $80.

2 Bought merchandise from A. H. Miner for our note at 5 days, $1345.18.

3 Sold merchandise for cash, $32.96.

4 Received note at 10 days from Arthur Grant, on account, $128.37.

5 Paid our note due to-day, favor A. H. Miner, $1345.18.

6 Sold Arthur Grant, on account, 30 days, merchandise per invoice, $1123.75.

7 Bought from Harold Haynes, on account, 30 days, merchandise per invoice, $1742.

8 Received note at 30 days from Foster Bros., in part payment of bill of January 2, $150.

9 Gave Harold Haynes our note at 60 days, in payment of bill of January 26, $365.

10 Bought merchandise of F. B. Munson, $612.50. Gave in part payment a check for $200; note at 60 days for $300; balance on account.

11 Paid our note due to-day with interest, held by James Brown, face $265; interest for 90 days at 5%.

12 Transferred by indorsement C. W. Wallace's note for $226.25 to J. M. Guilford at the face value, to apply on account.

13 Received cash from James Howard for his note due the 11th, $80.

14 Paid Duer Hardware Co. in full, $165.

15 Received cash from Arthur Grant for his note due yesterday, $125.37.

16 Paid our 60-day note, with interest due to date, favor Gimbel Bros.; face of note, $192.

17 Paid janitor's service for the month by check, $25.

18 Sold G. B. Dane & Co., for cash, merchandise per bill rendered, $48.93.

19 Received cash from Harold Haynes, in full of account, $32.87.

20 Discounted note received from J. F. Wiggins. Face of note, $1000; period of discount, 26 days; net proceeds received in cash.

21 Prepaid our note of $320, in favor of H. C. Bliss, given January 1, at 6 months, less discount to maturity.

Exercise 4

March 1, 19— Closed our account with Wilson & French by giving our note at 90 days for balance, $146.15.

2 C. M. Russell transferred to us J. N. Wade's note for $175 at its present value, the discount for the unexpired time being $1.63.

3 Through a fire which broke out in the basement, goods to the value of $70 have been entirely destroyed. No insurance.

4 We have received from the Three County Fair Association a prize of $100 for the best decorated store window.

5 A robber entered the store and took from the money drawer currency amounting to $81.85.

6 In paying our month's rent, which was charged to the Expense account, we drew our check for $12 too much through an error in calculation. This amount has been refunded to us by the owners of the store.

7 We have discovered a counterfeit twenty-dollar bill in the cash drawer, the source of which cannot be traced.

9 Received from Steiger & Co. note of Andrew Dobbie for $350 due April 15; we have allowed them credit for the net proceeds, discounting it at 6%; discounted March 5.

10 S. E. Hamlin clerked for us one week, and we have paid him with merchandise to the amount of $12.50, taken from the stock.

11 K. N. Reynolds fails, owing us $567.34 on account; we compromise with him by taking his note for one year for 50¢ on the dollar, and give him a receipt in full.

12 We hold a 90-day note on W. A. Wallace, dated April 5, for $625. We indorse it over to Henry Wagers and receive credit for the proceeds; discounted May 13 for the unexpired time at 5%.

13 John Brown's note for $1500, due to-day, was renewed for 3 months for the same amount. Six months' interest at 6% on the old note was paid in cash.

14 Bought a bill of merchandise from C. E. Parsons amounting to $376.45, giving in payment our note at 60 days for $100, a check for $200, and the balance on account.

Exercise 5

April 1, 19— Student commenced business this day, investing cash, $6000.

2 Paid cash for advertising in the daily paper, $25.

3 Paid for a set of books and other stationery for office use, $50.

4 Bought of William Brown, for cash, 100 bbl. flour at $7.

4 Paid rent for the month of April, $75.

5 Sold Henry Davis, for cash, 50 bbl. flour at $8.

5 Bought of Haynes & Co., on account, 100 bbl. pork at $16, 100 bbl. beef at $14.

6 Sold John Wood, on account, 50 bbl. flour at $8, 25 bbl. beef at $16.

8 Sold A. O. Henry, on his 30-day note, 50 bbl. pork at $17.50, 25 bbl. beef at $16. (When goods are sold and a note is taken in payment, two entries should be made; the first entry is a debit to the customer and a credit to Sales; the second entry is a debit to Notes Receivable and a credit to the customer. The explanation of the first entry merely itemizes the sale; the explanation of the second gives a description of the note received, etc. By this means, an account must be opened in the ledger with every customer, regardless of the terms of sale.)

9 Bought of Jordan Bros., on my 60-day note, 125 bbl. salt at $1.25. (The same principle applies to a purchase in case a note is given in payment: two entries should be made, the first

a debit to Purchases and a credit to the firm from whom bought; the second a debit to the firm and a credit to Notes Payable.)

11 Bought of Haynes & Co., on my note at 30 days, 125 bbl. pork at $16, 100 bbl. beef at $14.

13 Received $1269.69 in cash from A. O. Henry for his $1275 note, dated April 8, less discount for the unexpired time, $5.31. (Debit Discount on Notes Receivable for the discount. See rules applying to Interest on Notes Receivable, page 72.)

14 Paid Haynes & Co. cash for invoice of April 5.

16 Sold D. M. McKensey, for cash, 100 bbl. pork at $18.

16 Received of John Wood cash for bill of April 6.

17 Paid cash for coal for use in store, $20.75.

19 Sold Clark & Henry, on account, 40 bbl. salt at $1.75.

20 Sold Martin & Co., on their 10-day note with interest, 25 bbl. pork at $18; 50 bbl. beef at $16; 20 bbl. salt at $1.75.

23 Bought of Larkin & Co. 40 bbl. lard, 8000 lb., at 12½ ¢. Paid cash $500; balance on account 30 da.

25 Sold A. O. Henry, on account, 25 bbl. pork at $18, 75 bbl. beef at $16, 50 bbl. salt at $1.75.

27 Paid cash for freight and drayage, $37.82.

29 Sold John Wood, on account, 15 bbl. lard, 3000 lb., at 17 ¢.

30 Received $1287.14 cash from Martin & Co. for their $1285 note of the 20th inst., with interest.

30 Paid cash as follows: Bookkeeper's salary, $75; Clerk's salary, $50; Gas bill, $7.80.

The following work is now required:

(*a*) Open ledger accounts and post. Allow one-half page for each account.

(*b*) Take a trial balance.

(*c*) Prepare Profit and Loss Statement; merchandise inventory, $1168.75.

(*d*) Prepare Balance Sheet.

(*e*) Make closing entries and rule ledger accounts.

Exercise 6

January 1, 19— Student commenced business this day with $4000 cash capital.

2 Bought of Wm. Brown, for cash, 100 bbl. flour at $7.50; total, $750.

3 Sold H. Davis for cash, 50 bbl. flour at $8.50.

4 Bought of Hart and Co., for cash, 100 bbl. pork at $15.50, and 100 bbl. beef at $13.50.

5 Sold Chas. D. Gordon, for cash, 25 bbl. flour at $9.25, and 50 bbl. beef at $15.

6 Paid rent of store in cash, $50.

8 Bought of J. D. Morgan, on account, 100 bbl. flour at $7.75.

10 Sold A. O. Steele, on account, 50 bbl. flour at $8.75.

12 Bought of D. Hammond, on account, 100 bbl. salt at $1.25, and 50 bbl. beef at $14.

15 Sold James T. Wood, on account, 25 bbl. pork at $17.50, 10 bbl. salt at $1.75, and 30 bbl. flour at $8.

16 Sold Larkin Bros., for cash, 50 bbl. pork at $17.50, and 25 bbl. flour at $8.

20 Bought for cash 2 tons coal for use in store, $19.50.

22 Bought of Clark, Good & Co., for cash, 100 bbl. flour at $7.25.

23 Received cash of A. O. Steele in full of account, $437.50.

25 Sold James T. Wood, on account, 40 bbl. flour at $8.50.

26 Paid D. Hammond cash to apply on account, $400.

27 Sold Chas. D. Gordon, for cash, 25 bbl. salt at $1.80, and 25 bbl. beef at $16.50.

29 Paid clerks' salaries for January in cash, $175.

30 Received cash of James T. Wood on account, $200.

31 Bought of D. Hammond, on account, 50 bbl. pork at $16.25.

Open the necessary ledger accounts, allowing one page each for Cash, Purchases, and Sales, one-half page each for the proprietor's account, Notes Payable, Notes Receivable, and General Expense accounts, and one-fourth page for all other accounts.

Take a trial balance.

February 1, 19— Sold H. Galt, for cash, 25 bbl. salt at $1.80.

2 Bought of Hart & Co., for cash, 25 bbl. lard, 5000 lbs., at 10½¢.

3 Paid J. D. Morgan cash on account, $100.

5 Bought of Bell Bros. & Day on account, 30 days, 10 bbl. A. sugar, 2500 lbs., at 7½¢, and 10 hf. cht. Japan tea, 600 lbs., at 50¢.

6 Paid gas bill for January in cash, $6.50.

8 Sold A. O. Steele, on account, 10 bbl. lard, 2000 lbs., at 14½¢.

9 Received cash of James T. Wood on account, $100.

10 Sold Sherman, French & Co., 60 bbl. beef at $17.50. Received part payment in cash, $250; balance on account.

12 Student drew cash for private use, $100.

13 Bought of Miller & Beach 50 bbl. beef at $14.25, and 50 bbl. pork at $16.25. Made part payment in cash, $250; balance on account.

13 Received cash of A. O. Steele on account, $100.

14 Sold D. W. Powers, on his note at 10 days, 50 bbl. pork at $18.50.

15 Bought of Chas. H. Norris, on my note at 10 days, 50 bbl. flour at $7.50.

17 Sold O. W. Gardner, for cash, 3 bbl. A. sugar, 625 lbs., at 8½¢.

19 Sold Freeman & Johnson, on their note at 15 days, with interest, 40 bbl. beef at $16.

21 Bought of Long & Martin, on my note at 10 days, with interest, 50 bbl. pork at $15.50, and 50 bbl. beef at $13.50.

22 Paid Miller & Beach cash on account, $200.

23 Received of James T. Wood his note at 15 days in full of account, $735.

24 Received cash of D. W. Powers for his note of the 14th inst., $925.

25 Paid my note of Feb. 15, in favor of Chas. H. Norris, in cash, $375.

26 Gave D. Hammond my note at 10 days on account, $300.

28 Paid rent and salaries in cash, $175.

INVENTORY OF MERCHANDISE, FEBRUARY 28, 19—

130 bbl. Flour,	$8.
40 bbl. Salt	1.25
10 hf. cht. Japan Tea, 600 lb.	.50
7 bbl. A. Sugar, 1875 lb.	.06½
75 bbl. Beef	14.
125 bbl. Pork	16.
15 bbl. Lard, 3000 lb.	.10½

As the business of February is a continuation of that of January, post it under the same ledger headings, opening new accounts only when they are required. Allow one-fourth page space for each new account in this month. Do not leave blank lines between the items of January and those of February in old accounts.

Your ledger now contains the entries of two months. Rule off any accounts that balance. Foot the accounts in pencil and take a trial balance on a sheet of journal paper.

Prepare Profit and Loss Statement and Balance Sheet, after which make closing entries, post them, and rule ledger accounts.

March 1, 19— Paid Miller & Beach cash on account, $300.

2 Sold Alex. Goodman, on his note at 10 days, with interest, 50 bbl. flour at $9; 10 bbl. beef at $16.

3 Paid February gas bill in cash, $6.

3 Paid my note of Feb. 21, favor of Long & Martin, and interest, in cash; face of note, $1450; interest, 10 days, $2.42.

5 Gave Bell Bros. & Day my note at 10 days, with interest, in full of account, $487.50.

6 Bought of E. L. & E. B. King 50 bbl. beef at $14. Made part payment in cash, $200; balance on account.

6 Sold R. H. Day, for cash, 5 hf. cht. Japan tea, 300 lb., at 60¢.

6 Received cash, $641.60, of Freeman & Johnson for their note of Feb. 19, and interest. Face of note, $640; interest, 15 days, $1.60.

8 Paid rent of store in cash, $50.

8 Paid my note of Feb. 26, favor of D. Hammond, in cash, $300.

10 Sold A. O. Steele on account, 10 days, 25 bbl. pork at $17.50; 5 bbl. lard, 1000 lb., at 12¢; 20 bbl. flour at $8.

10 Received cash of James T. Wood for his note of Feb. 23, $735.

11 Received of Sherman, French & Co., in full of account, as follows: cash, $210; their note at 60 days, $600.

12 Received cash of Alex. Goodman for his note of March 2, and interest. Face of note, $610; interest, 10 days, $1.02.

13 Sold Collins & Carpenter, 40 bbl. salt at $1.80; 50 bbl. pork at $17.50; 50 bbl. beef at $16. Received part payment in cash, $785; their note at 30 days for balance.

15 Paid J. D. Morgan cash on account, $200.

15 Paid my note of March 5, favor of Bell Bros. & Day, and interest, in cash. Face of note, $487.50; interest, 10 days, 81¢.

16 Bought of Leffingwell Mfg. Co., for cash, a safe for office use, $475.

16 Bought of Gardner & Gardner, 50 bbl. beef at $13.50. Paid them cash, $300; gave them my note at 60 days for balance.

17 Sold Sherman, French & Co. on account, 60 days, 7 bbl. A. sugar, 1875 lb., at 9¢; 5 hf. cht. Japan tea, 300 lb., at 60¢.

18 Collins & Carpenter prepaid their note of March 13 in cash, less discount. Face of note, $962; discount off, 25 days, $4.01; cash received, $957.99. (Debit discount on Note Receivable.)

19 Bought of Miller & Beach, on account, 25 bbl. pork at $15; 10 bbl. lard, 2000 lb., at 10½¢.

21 Sold James T. Wood, on account, 10 bbl. pork at $17; 10 bbl. beef at $16.

23 Received cash of A. O. Steele on account, $150.

24 Paid in cash, Scrantom & Co.'s bill for books, stationery, etc., for office use, $15.75.

26 Bought of J. D. Morgan, on account, 50 bbl. flour at $7.50.

27 Sold Wm. N. Marsh, 25 bbl. pork at $17; 25 bbl. beef at $16. Received cash on above, $225; his note at 3 mo. with interest, for balance.

28 Gave Miller & Beach my note at 2 mo., to apply on account, $300.

29 Paid clerks' salaries in cash, $125.

30 Received cash of James T. Wood on account, $100.

31 Sherman, French & Co. prepaid their note of March 11 in cash, less discount. Face of note, $600; discount off, 40 days, $4; cash received, $596.

INVENTORY OF MERCHANDISE, MARCH 31, 19—

210 bbl. Flour	$ 7.
80 bbl. Beef	13.50
40 bbl. Pork	15.
20 bbl. Lard, 4000 lb.	.10

The business of March, being a continuation of that of January and February, should be posted under the same ledger headings. Open the necessary new accounts, giving each one-fourth page space.

Post, and take a trial balance. The trial balance should show a summary of all postings for January, February, and March.

Prepare financial statements; make closing entries; post them; rule ledger accounts; and take a proof trial balance. The work should then be submitted for examination.

EXERCISES IN FINANCIAL STATEMENTS

Exercise 1

TRIAL BALANCE, APRIL 30, 19—

H. C. Fraser (Proprietor)	$ 33.	$ 2500.
Purchases	7845.50	
Sales		6109.
Expense	104.	
Cash	1145.50	
Notes Receivable	669.50	
Accounts Receivable	1941.	
Notes Payable		845.
Accounts Payable		2284.50
	$11738.50	$11738.50

Merchandise inventory, $2327.40; prepare Profit and Loss Statement for the month of April; prepare Balance Sheet; make closing entries.

Exercise 2

TRIAL BALANCE, MAY 31, 19—

Herbert Fallon (Proprietor)		$6000.
Purchases	$6040.47	
Sales		6327.50
Freight (on Purchases)	78.60	
Expenses	303.55	
Discount	22.91	29.70
Interest	3.91	5.72
Cash	4477.23	
Accounts Receivable	2092.50	
Notes Payable		156.25
Accounts Payable		500.
	$13019.17	$13019.17

Merchandise inventory, $1178.32; prepare Profit and Loss Statement; prepare Balance Sheet; make closing entries.

Exercise 3

From the following trial balance of December 31, 19—, prepare Profit and Loss Statement; prepare Balance Sheet; make closing entries:

John Sanders (Proprietor)	$ 2040.	$30910.67
Purchases	49813.15	
Sales		36400.60
General Expense	1524.27	
Advertising	525.73	
Salaries	1920.	
Furniture and Fixtures	2210.	
Traveling Expenses	550.	
Real Estate	8200.	
Office Supplies	300.	
Accounts Receivable	9030.30	
Accounts Payable		8646.45
Notes Receivable	1297.40	
Notes Payable		2400.75
Cash	947.62	
	$78358.47	$78358.47

Inventory, December 31, 19—, $18,720.48; office supplies on hand, $150.

CASH BOOK EXERCISES

These exercises are intended for cash books with special columns and should be used following or in connection with the May work.

Exercise 1

Design a cash book on separate journal paper and record therein the cash transactions occurring in Exercises in Journalizing, exercise No. 5, page 132, following the instructions given above. Close the cash book at the end of the month.

Exercise 2

Design a cash book on separate journal paper and record therein the cash transactions occurring in the months of January, February, and March given in the Exercises for Journalizing, exercise No. 6, page 133. Close the cash book at the end of each month.

Exercise 3

Record the following transactions in a cash book and balance the book following the last entry.

May 1, 19— Balance, $3124.12.

2 J. W. Monroe pays his account of $115.

3 We give A. C. Bell our check for $75 in payment of one month's rent of store.

4 Pay A. W. Stone's invoice of August 18, amounting to $1693.50, less 2% discount.

5 The First National Bank discounts note of C. W. Norris for $320; period of discount, 27 days; rate of discount, 4%.

6 Pay freight on invoice of goods received from Wanamaker & Co., $17.85.

6 A. P. Smith, traveling salesman, reports this week's expense bill, $61.20, and we remit him New York draft for this amount.

8 An office desk which we do not need is sold to H. L. Parker for $45.

9 Pay taxes on property located at 165 Elm St., $41.20.

10 Randell & Co. send us a check in payment of a bill of goods sold them April 1, amounting to $387.25, less 3%.

11 Receive a check of $175 from A. W. Summer to apply on a note of $500, which we hold against him.

12 Pay our note of $270 due to-day, held by the Fourth National Bank, with 90 days' accrued interest at 6%.

13 Receive a check from Miller Bros. for $17.50 in payment of interest on a note which we hold against them.

14 Loan W. H. Wilson $200, and take his note for 60 days as security.

15 Cash sales of merchandise for the day amount to $97.40.

16 Buy of W. A. Clark Coal Co., 16 tons coal at $7.80 per ton.

17 The First National Bank discounts our $200 note and credits our account for the proceeds. Discount at 5½% for 4 months.

20 Pay salaries of bookkeepers and stenographers to date, $60.

Exercise 4

June 1, 19— Balance, $4722.85.

2 E. B. Hunt pays $225 on his account.

3 Cash sales of merchandise, reported by our delivery wagon, amount to $22.50, turned in by the driver.

4 Pay our coal bill for March, $15.

5 We pay for invoice of goods bought of J. M. Snow on February 1, less 2% discount allowed us. Amount of invoice, $1230.

6 Pay our note held by the First National Bank due to-day, with 30 days' interest at 6%. Face of note, $350.

6 J. M. Hastings withdraws from the business $50 for personal use.

8 Our bank discounts Byron King's note of $800 and credits our account with the proceeds. Date of note, April 15; time to run, 4 months; rate of discount, 6%.

9 H. M. Turner pays for bill of goods sold him February 28, less 2½%, the bill amounting to $322.50.

10 H. F. Adams pays his note of $125 which we hold against him, and which is due to-day, with 90 days' interest at 6% added.

11 Loan $500 to H. G. Hill & Co., and take their note for 90 days as security.

12 Pay freight and cartage bills to date, amounting to $17.85.

13 The City National Bank discounts our 60-day note and credits our account with the proceeds. Face of note, $200; rate of discount, 6%.

15 Buy, for investment, a house and lot on Fruit Street, paying $2000 for it.

15 Pay bookkeeper's salary for month, $80.

16 Buy mileage book for use by our traveling salesman for $20.

Exercise 5

(Follow instructions for Exercise 3)

July 1, 19— Balance, $2708.52.

2 E. W. Gray sends us a check for $240.10 to apply on his account.

3 Pay office rent for one month in advance, $150.

4 Buy Fox typewriter of Joseph Pickett for $100 cash.

5 J. E. Pender sends us a New York draft for $692.50 in full of his account.

6 We pay W. M. Collins for invoice of goods bought of him March 28, amounting to $1027, less 3%.

8 Pay last month's bills for advertising in daily papers, $87.25.

8 We hold a note against J. W. Arnold for $485, due to-day; they pay by check.

9 The Fourth National Bank discounts our 60-day note and credits our account for the net proceeds. Face of note, $500; rate of discount, 6%.

10 We sold George E. Bryan an invoice of goods on the 1st inst., amounting to $185. He pays for the same to-day, less 2% allowed him for cash.

11 Pay telephone bill for March, $4.16.

12 Pay freight bills amounting to $72.85.

13 We pay our note for $200, held by Smith & Jones, which is due to-day.

13 We hold a 60-day note against C. W. Conant for $560, bearing interest at 6%, and due to-day. He pays the note and interest with a check.

15 F. B. Mason pays for the bill of goods we sold him March 30, amounting to $750, less 3%.

16 Pay clerks' wages to date, $75.

17 Buy five dollars' worth of stamped envelopes.

18 The First National Bank discounts H. F. Adams's note of $1320 to-day. Period of discount, 42 days; rate of discount, 6%.

OPENING ENTRIES

In opening a set of books, first make a complete statement of the resources and liabilities of the business. The resources will consist of cash in drawer and in bank, all forms of property in the possession of the business, such as merchandise, materials, furniture and fixtures, real estate, machinery and tools, etc., and all debts due the business either on personal accounts, generally spoken of as "Accounts Receivable," or on notes, called "Notes Receivable."

There should also be included under the resources any other items of indebtedness due the business, such as accrued interest on bills receivable, prepaid insurance, etc.

The liabilities of a business consist of all it owes. This indebtedness may be either on personal accounts, which are called "Accounts Payable," or on notes, known as "Notes Payable." There may also be other items of debt owing by the business, such as unpaid rent, accrued interest on Notes Payable, etc.

The difference between the sum of the resources and the sum of the liabilities represents the net investment, or net capital, of the business. This difference should be added to the list of the liabilities of the business, since it is the amount which the business owes to the proprietor or partners.

After this statement of resources and liabilities is completed, it is easily journalized by the following rule:

Debit the resources and credit the liabilities.

This rule will make a complete journal entry of any opening statement, since the resources and liabilities of every business are made equal by considering the net capital, or present worth, as a liability of the business. By this method, the opening statement of the resources and liabilities of any business is included in one journal entry.

If desired, however, a separate entry may be made for the resources and another one for the liabilities. In this case the rule would be:

Debit the resources and credit the proprietor for the total; credit the liabilities and debit the proprietor for the total.

The opening entry of a business is placed in the journal, the cash being included in this entry as a matter of convenience, and to show the complete investment in one entry. The cash investment is entered also in the cash book, but is checked off so that it will not be posted a second time to the credit of the proprietor or partners. In the journal the cash debit is checked off when the entry is made in the cash book.

Investment of Single Resource by Single Proprietor

This is the simplest kind of opening transaction. The form of the entry required has been shown in previous work. (See page 118.)

Investment of Several Resources by Single Proprietor

Make on journal paper the opening entries (journal and cash book) for the following:

1 Geo. W. Carter begins the Tea, Coffee, and Spice business this day with the following resources: Cash on hand and in bank, $385; mdse. as per inventory, $1250; store fixtures, $275; Jno. Harper owes on acct., $25.

The entry below illustrates the journal entry in a different form.

April 1, 19–

	G. T. Berry has this day commenced the Tea, Coffee, and Spice business at 309 Elm St., investing resources as follows:				
	Cash	on hand and in bank	400		
	Purchases	per inventory	1500		
	Store Fixtures	" "	300		
	Jno. Harper	on acct.	50		
	G. T. Berry	investment			2250

Do not neglect to check off the cash investment entry in both journal and cash book.

2 James Wooley begins business with the following resources: Cash in safe, $125; cash in bank, $3675; store building and lot, $5000; goods per inventory, $2500; Harry Altenau owes $140; Daniel Jenkins owes $320; note of Davis Bros. per B. B., $627.50; interest accrued on above note to date, $6.28.

3 E. M. Harrigan begins business with these resources: Cash in bank, $3750; mdse. as per inventory, $5378; office safe, $375; typewriter and other office furniture, $200; building and lot partially occupied by business, $7000. The following firms owe Harrigan on acct.: Harrison Loeb, $126; Fay & Eagan Co., $75.84; Jones Bros. Co., $186.75.

Investment of Resources and Liabilities by Single Proprietor

4 J. W. Jones has this day opened a Wood and Coal business at 125 W. Fifth St., with the following resources and liabilities:

Resources: Cash on hand and in bank, $675.50; mdse. as per inventory, $1672.25; horses and wagons valued at $570; S. M. Blue on account, $72.50; J. D. Simpson on account, $45.

Liabilities: Due Jno. Solzer & Co., on acct, $395; due H. C. Bailey on 30-da. note, $500.

The following illustrates the form of journal entry required.

March 15, 19–

	Cash	on hand and in bank	700		
	Purchases	per inventory	1345		
	Horse & Wagon	" "	590		
	E. H. Beel	on account	73		
	E. L. Schuler	" "	50		
	R. E. Brown & Co.	" "			400
	Notes Payable	30 da. note			600
	J. W. Smith	net investment			1758

5 V. C. Taylor commenced business with cash, $5000; real estate, $12,000; mdse., $8500; note for $1500 against J. Wilson, with accrued interest, $10.50; note for $600 against A. R. White, with interest accrued, $7.20; due from D. D. Jones on account, $175, and from J. C. Henry, $375. Taylor owes on a note to Carl D. Steiner, $460; interest accrued on this note, $9; Taylor owes on account to Brown & Jones, $1265.50, and to Jacob J. Anstead, $324.75.

Opening Entries of Partnerships

6 Harry Peck and Joseph Long form a partnership under the firm name of Peck & Co., for the purpose of conducting the Furniture business. Peck invests cash $5000, and Long invests $3000.

Make the entry, debiting cash for the total amount of money invested, this being the resource at beginning, and crediting the partners for their respective investments.

7 John Shaler, Henry Desmond, and J. C. Cunningham have formed a partnership under the style of Shaler, Desmond & Co., to carry on the Dry Goods business. Their investments are as follows:

Shaler invests cash, $3000; stock of goods, $2000; sundry personal accounts due him amounting to $1500; and Henry Gorman's note, $500, with accrued interest, $5.

Desmond invests cash, $2000; store building and lot, $7000.

Cunningham's investment consists of cash, $1500, and 50 shares of Pa. R. R. stock at the market value of $120 per share.

Make one entry for the entire opening transaction, debiting resources and crediting liabilities. The only liabilities in this case are to the three partners for the amount of their investments. Debit Accounts Receivable for the total of personal accounts due.

8 Thomas Bender and J. B. Potter have this day formed a partnership and will hereafter conduct their respective businesses as one business under the style of Bender & Potter.

Bender's statement of resources and liabilities is as follows:

Resources: Cash on hand, $1000; stock of groceries, $1125; outstanding accounts, $395; store and office fixtures, $890; office furniture, $250.

Liabilities: Due sundry creditors on account, $500; notes outstanding, $750.

Potter's statement is as follows:

Resources: Cash, $1500; stock of coffee, tea, and spices, $2000; store lot and building, $6000; rent due on part of storeroom, $200.

Liabilities: Due creditors on account, $1500; mortgage on store building, $3000.

Make entry for the opening statement of the new firm. Credit Accounts Payable for the total due creditors. Credit Mortgages Payable for the mortgage.

WHOLESALE CARPET BUSINESS

In the following exercise, a journal, a cash book, a sales book, and a purchases book will be used.

In addition, a stock book will be used in the exercise, by means of which book the quantity of goods on hand from day to day may be readily determined. This is often spoken of as a *perpetual* inventory, a *book* inventory, or a *going* inventory, as contrasted with a *physical* inventory, which consists in taking stock of goods on hand at a certain time.

The advantages of a perpetual inventory are:

(*a*) The amount of goods in stock is known at any time.

(*b*) It enables the purchasing agent to anticipate purchases in order that sufficient stock may be carried at all times.

(*c*) It detects loss by theft or by waste.

The following illustrates a simple form of such a book. The student may use ledger paper to good advantage in designing the book, as the account kept with each class of merchandise dealt in is handled according to the principles of a ledger account, being debited with the quantity bought and credited with the quantity sold.

AXMINSTER

Date Purchased		From Whom Bought	Unit Cost	Yards	Date Sold		Sales No.	Yards	Balance
June	2	Empire Carpet Co.	1.85	1250	June	3	175	750	500
	4	Holden & Company	1.80	525		5	181	325	700
	6	Bigelow Company	1.90	1050		6	186	750	1000
	10	Empire Carpet Co.	1.85	625		7	190	250	750
	13	Holden & Company	1.80	2050		9	194	700	50
						10	201	225	450
						11	209	300	150
						12	212	150	—
						13	218	1250	800
						14	224	325	475

No explanation should be necessary regarding the use of the book.

In practice, a loose leaf or a card system, instead of a bound book, is usually adapted for stock records.

In writing up the following exercise, the student is expected to rely wholly upon his knowledge of the subject as obtained from former exercises. The work is not to be submitted for examination until the exercise is entirely completed. Selling price lists will be assigned by the instructor, from the schedule on page 144.

The work should be done in the following order:

(1) Make all entries required.

(2) Close the cash book, the purchases book, and the sales book.

(3) Post.

(4) Take a trial balance.

(5) Take an inventory of the goods on hand as shown by the stock book, reckoning the value of the stock at cost prices.

COST AND SELLING PRICE LISTS

Cost		1	2	3	4	5	6	7	8	9	10
1.87½	Axminster	2.25	2.27	2.26	2.24	2.25	2.28	2.27	2.25	2.30	2.24
1.05	Body Brussels	1.50	1.48	1.49	1.52	1.50	1.48	1.50	1.53	1.48	1.50
.62½	Ingrain	.87½	.87½	.87½	.87½	.87	.87½	.86	.87½	.88	.87½
.06¼	Lining	.09	.08	.10	.08½	.09½	.09	.10½	.09	.09½	.09
.67½	Linoleum	.75	.76	.74	.77	.75	.73	.75	.74	.73	.76
.33⅓	Matting	.50	.52	.51	.48	.49	.50	.52	.50	.51	.49
1.12½	Moquette	1.62½	1.62½	1.66⅔	1.62½	1.66⅔	1.67½	1.62½	1.66⅔	1.62½	1.67½
.33⅓	Oilcloth	.45	.43	.44	.42	.45	.43	.44	.45	.46	.42
.66⅔	Tapestry Brussels	.87½	.87½	.87½	.87	.87½	.87½	.87½	.87½	.87½	.87½
1.37½	Velvet	1.67½	1.67½	1.66⅔	1.62½	1.67½	1.66⅔	1.62½	1.67½	1.62½	1.67½

(6) Prepare a Profit and Loss Statement and a Balance Sheet.

(7) Make the closing entries, post them, and rule the ledger accounts.

(8) Pass in the exercise for correction.

Transactions

June 1 Commenced the Wholesale Carpet business, at No. 182 Elm Street, investing cash, $5500.

1 Paid $250 for office furniture.

2 Bought of John H. Pray & Co., Boston, net 30, 2/10, 600 yd. moquette, 750 yd. body Brussels, 1200 yd. ingrain, 1200 yd. matting, 2500 yd. lining.

3 Bought of Barton & Bros., Philadelphia, 1220 yd. linoleum, 1429 yd. oilcloth, note at 15 days with interest being issued in payment.

4 Sold E. B. Alling & Co., for cash, less 3%, 125 yd. moquette, 150 yd. body Brussels, 300 yd. lining. You may number the sales, beginning with No. 100.

4 Sold F. H. Walling & Co., net 30, 2/10, 200 yd. ingrain, 400 yd. matting, 600 yd. lining.

4 Sold J. G. Carter & Co., 400 yd. moquette, 450 yd. body Brussels, 850 yd. lining, taking their note at four months in payment.

5 Sold E. H. Smith & Co., 75 yd. moquette, 150 yd. body Brussels, 600 yd. linoleum, 429 yd. oilcloth, obtaining their 30-day acceptance in payment.

5 Discounted J. G. Carter & Co.'s note of June 4 at the City Bank.

5 Bought of John H. Pray & Co., Boston, net 30, 2/10, 950 yd. moquette, 892 yd. body Brussels, 2200 yd. lining.

5 Paid freight and drayage on merchandise, $32.10; rent for month of June, $75; books and stationery, $22.50.

5 Bought of James Smith & Co., New York, 400 yd. Axminster, 525 yd. velvet, 984 yd. tapestry Brussels, 2000 yd. lining, accepting a 10-day draft in payment.

7 Paid James Smith & Co.'s draft of June 5, at 10 days from date, for $2252.88, less discount for the unexpired time.

7 Sold Reed & Savage, subject to sight draft, less 3%, 145 yd. Axminster, 220 yd. velvet, 484 yd. tapestry Brussels.

8 Drew a sight draft on Reed & Savage, for the amount of invoice sold them June 7, less 3%, and had the draft placed to your credit in the City Bank.

8 Sold Knowles & Johnson, on account, net 30, 2/10, 300 yd. moquette, 392 yd. body Brussels, 400 yd. ingrain, 1200 yd. lining.

9 Paid the invoice of J. H. Pray & Co., received June 2, $2768.75, less 2%.

10 F. H. Walling & Co. paid their bill of June 4, less 2%.

11 Discounted E. H. Smith & Co.'s acceptance of June 5, at the City Bank.

12 Sold F. H. Walling & Co., on their note at 4 mo., with interest, 600 yd. ingrain, 475 yd. matting, 1200 yd. lining. Allowed them the cash discount of 3%.

14 Bought of John & James Dobson, Philadelphia, net 30, 2/10, 892 yd. body Brussels, 1225 yd. tapestry Brussels.

14 Bought of Barton Bros., Philadelphia, net 4 mo., 8/15, 1500 yd. linoleum, 1400 yd. oilcloth.

15 Knowles & Johnson sent you, to apply on account, T. H. Sullivan's note in their favor, dated Denver, Colo., May 24, 19—, at 90 days, for $742.28, with interest. Allowed Knowles & Johnson credit for the face of the note and the interest accrued upon it to date.

15 Paid John H. Pray & Co. invoice of June 5, less 2%.

16 Discounted the Sullivan note, received of Knowles & Johnson, at the City Bank. (This is an interest-bearing note.)

16 Sold J. G. Carter & Co., on acct., net 60, 2/10, 600 yd. linoleum, 480 yd. oilcloth.

17 Drew for private use, $150.

17 Paid clerks, $75.

18 Sold E. H. Smith & Co., 212 yd. Axminster, 305 yd. velvet, 250 yd. tapestry Brussels, obtaining their acceptance at 30 days in payment.

18 Knowles & Johnson paid the balance due on their bill of June 8, less 2% of the entire bill.

18 Paid note (dated June 3) and interest favor of Barton Bros. due this day.

21 Sold E. B. Alling & Co., net 30, 2/10, 420 yd. moquette, 280 yd. body Brussels, 800 yd. lining.

21 Discounted F. H. Walling & Co.'s note of June 12 at the bank.

22 Bought of John H. Pray & Co., Boston, net 60, 3/10, 897 yd. moquette, 1745 yd. ingrain, 2400 yd. lining.

23 Bought of James Smith & Co., New York, subject to sight draft in 10 days, 722 yd. Axminster, 941 yd. velvet.

23 Paid John & James Dobson's invoice of June 14, less discount.

24 Sold Reed & Savage, 400 yd. moquette, 712 yd. body Brussels, 1200 yd. lining, taking their acceptance at 10 days in payment, less 2% discount on the bill.

25 Bought of John & James Dobson, Philadelphia, 1892 yd. body Brussels, 671 yd. moquette, 3200 yd. matting. Gave in part payment your note at 4 mo. for one-half of the amount of the invoice; the balance on account, 4 mo.

26 Sold Knowles & Johnson, net 4 mo. 2/15, 920 yd. linoleum, 1220 yd. oilcloth, 43 yd. Axminster.

28 Sold F. H. Walling & Co., net 30, 2/10, 698 yd. moquette, 792 yd. body Brussels, 1500 yd. lining.

28 Sold E. B. Alling & Co., net 30, 2/10, 390 yd. moquette, 822 yd. body Brussels, 975 yd. tapestry Brussels.

29 Paid Barton Bros.' invoice of June 14, less 8%.

30 E. B. Alling & Co. desired to take advantage of 2% discount on their purchase of June 21, but being short of money, they sent $1000 to apply on account, with the understanding that they are to be allowed the discount on so much of the bill as this amount will pay for.

30 Paid clerks, $75. Paid freight bills to date, $68.92.

EXAMINATIONS — I

Elementary Bookkeeping and Business Practice

Time: Four hours

Make, with sufficient explanations, the proper entries for the following transactions, using at least *two* books of original entry (double entry journal and cash book): (40 points)

1 Oct. 11, 19— F. A. Cross, Detroit, Mich., starts a business venture with a cash investment of $500 on deposit in The Valley Trust Co.

11 Mr. Cross purchases from The Amsterdam Carpet Co., New York, a stock of carpets and rugs for $5000. The terms of payment are: cash down, $250; two notes, each for $1500, one for 30 days and one for 60 days; balance in two equal installments payable respectively on November 1 and December 1.

15 Paid freight bill on The Amsterdam Carpet Co. shipment from New York, $35.17.

16 Paid $18.75 premium for $5000 insurance on stock of goods.

23 Sold Henry Fair, Flint, Mich., on account, carpets amounting to $562.80.

26 Sold Daniels & Carr, City, for cash, rugs amounting to $210.40.

28 Sold Watson Jones, Ann Arbor, Mich., terms 2/15, a lot of carpets and rugs amounting to $1582.45.

30 Received from Henry Fair, in part payment of bill of Oct. 23, a check for $62.80 and a two months' note for $250, dated Oct. 29.

Nov. 1 Offered at The Valley Trust Co. for discount and credit, Henry Fair's note of Oct. 29 and our own 15-day note for $500, dated to-day, with Benjamin Olcott as accommodation indorser. The Valley Trust Co. credited our account with the proceeds of the two notes.

1 Paid by check the installment due The Amsterdam Carpet Co. to-day.

4 Sold at public auction carpets and rugs amounting to $842.35. With the exception of one rug sold for $150 to Mrs. J. L. Whitcomb, all the sales were made for cash.

10 Paid note due to-day in favor of The Amsterdam Carpet Co.

12 Received from Watson Jones check for bill of Oct. 28, less the discount.

16 Gave The Valley Trust Co. check for note due to-day.

20 Paid a number of expense bills amounting to $35.28.

25 Mr. Cross takes for his own use a rug valued at $85.

30 Received check from Henry Fair for the balance of his account.

30 In response to our letter of Nov. 27, The Amsterdam Carpet Co. writes in part as follows: "If you find it impossible to make the payment due Dec. 1, we shall be glad to take your 10-day note covering both the amount of the installment and the interest at 5%." We accept the proposition and send the note accordingly.

Balance the cash book and bring down the balance for Dec. 1.

2 On Dec. 31, 19—, the books and records of C. M. Sumner, a local merchant, give the following information concerning his business for the year just ended:

Merchandise on hand at the beginning of the year was valued at $3245.10; purchases for the year amounted to $5849.25; receipted freight bills show that $585 was paid for freight on goods purchased during the year; sales for the year amounted to $7248.95; merchandise on hand on Dec. 31, 19—, is inventoried at $5215.40; furniture and fixtures have depreciated 10% on a value of $600; the interest account shows a debit balance of $48.50; expense items amounting to $215 were paid during the year; the cash book shows that $106.28 discount was received in the settlement of invoices of merchandise purchased.

Prepare for Mr. Sumner a statement of income and profit and loss for the year ended Dec. 31, 19—. (10)

3 Answer both *a* and *b*:

(*a*) Write the accommodation note referred to in the transaction of Nov. 1 as it will appear when presented for discount. (5)

(*b*) Explain the difference between a three-party draft and a two-party draft. (5)

4 Open ledger accounts for Purchases and Sales and post the merchandise items in the entries made in Question 1.

After making additional entries to these accounts for a fire loss of $1260, which occurred on Dec. 2, close the accounts to show the gain or loss on merchandise, the stock saved being valued at $750. The insurance company paid Mr. Cross $1260 for the loss incurred. (10)

5 Answer *each* of the following:

(*a*) What are the journalizing rules for personal accounts? (2)

(*b*) Mention *two* kinds of entries that may appear on the debit side of the proprietor's account. (2)

(*c*) What is the difference in meaning between " draw at sight in 10 days " and " draw at 10 days' sight "? (2)

(*d*) What does the total of the debit side of an Interest and Discount account show? What does the total of the credit side show? (2)

6 Tell how one should proceed in preparing a Balance Sheet. (7) What are the three important items of information to be obtained from the Balance Sheet? (3)

7 Explain *each* of the following: check, creditor, blank indorsement, shipment, net insolvency. (10)

EXAMINATIONS — II

Elementary Bookkeeping and Business Practice

Time: Four hours

1 On Dec. 1, 19—, the cash book of W. F. Morgan, Springfield, Ill., shows a balance of $3416.25. Of this amount $3325 is on deposit in Second National Bank of Springfield and the remainder is in the cash drawer. (Mr. Morgan's banking business is transacted at the above mentioned bank.)

As bookkeeper for Mr. Morgan, enter the above balance in the cash book, under date of December 1, and record the following transactions, using at least *two* books of original entry (double entry journal and cash book): (40 points)

3 Purchased from Hill & Rice, St. Louis, Mo., terms 2/10 n/30: mdse. amounting to $814.50.

3 Received notice from Second National Bank that we have been credited for our sight draft on R. S. Briggs, Decatur, Ill., amounting to $137.50. (No entry was made when draft was drawn.)

4 Our 60-day note, bearing interest at 6%, in favor of Second National Bank, is due to-day and has been charged to our account; face of note $350.

7 Sold Austin & Brown, Clinton, Ill., terms one-half cash, balance 30-day note; mdse amounting to $450. Their check and note dated to-day have been received.

10 Paid by check Hawkins Supply Co.'s bill for office books and stationery just received, $37.50.

10 Sent check to Hill & Rice, in payment of their bill of Dec. 3, less the discount.

13 Discounted Austin & Brown's note of Dec. 7 at Second National Bank and received credit for the proceeds.

17 Received from Young & Co., Jacksonville, Ill., terms, acceptance at 10 days' sight; mdse. amounting to $647.50. Their draft dated Dec. 15 has been accepted and returned to them.

20 Made a settlement with R. G. Adams whose account of $118 is long past due. We agreed to accept in payment a second-hand typewriter at $35, five tons coal for office use at $7, and his 15-day note for the balance.

20 Received a check from Hamilton & Smith in full of their account amounting to $462.50, less 3% discount.

20 Mr. Morgan drew cash by check for private use, $50.

22 Sent a check to Bradley & Co. in full of their account amounting to $255.40, less 2% discount.

24 Sent a check to Young & Co. in payment of our acceptance of Dec. 17.

31 Paid by check the following bills presented to-day: McGee & Wilson's bill for advertising, $34.80; Williams Trucking Co.'s bill for freight and cartage on Hill & Rice's invoice of Dec. 3, $10.90; Carter Furniture Co.'s bill for office desk, $45.

Balance the cash book and bring down the balance.

2 The following is a trial balance taken Dec. 31, 19—, from the ledger of O. D. Lamont:

O. D. Lamont, proprietor	$ 250	$5,000
Cash	413.10	
Purchases	9094.35	
Sales		7248.95
Furniture and Fixtures	625	
General Expense	840.40	
Freight	560	
Mdse. Discount	83.90	
Interest		54
Notes Receivable	650	
Notes Payable		215
Accounts Receivable	1135.20	
Accounts Payable		1134
	$13651.95	$13651.95

Mdse. inventory Dec. 31, 19—, $5215.40; furniture and fixtures have depreciated 2½%.

From the above trial balance and inventories set up a statement of profit and loss for three months ended Dec. 31, and a statement of assets and liabilities of the same date. (20)

3 In case there is a balance in each of the following accounts, tell which side of the account should be the larger and give reason: Cash, Notes Receivable, Expense, a customer's account, a creditor's account. (5)

4 On January 10 Hiram Henning's check book showed a bank balance of $3245.10. On the same day a monthly statement, showing a balance of $3698.40, was received from the bank. The following checks were not returned by the bank: No. 6, $43.10; No. 8, $25.90; No. 10, $36.27; No. 13, $75; No. 18, $120; No. 23, $80; No. 27, $73.03.

Prepare a statement verifying both statement balance and check book balance. (10)

5 A bookkeeper made the following journal entries:

Cash	$2500	
William Brown		$2500
Expense	37.50	
Cash		37.50
Notes Receivable	98.25	
Henry Brown		98.25
Mdse.	125	
Bremmer & Co.		125

He then posted the above entries as follows:

Cash	
$250	$73.50

William Brown	
	$2500
	98.25

Expense	
$37.50	

Notes Rec.	
$98.25	

Bremmer & Co.	
	$125

Mdse.	
	$125

Copy the ledger accounts given above, check the posting, and tell what errors were made in the posting. (10)

6 Answer both *a* and *b*:

(*a*) Write the acceptance referred to in the transaction of Dec. 17. (3)

(*b*) Write the check referred to in the transaction of Dec. 22. (2)

7 Answer both *a* and *b*:

(*a*) Describe a business transaction the journal entry for which would require the use of the following accounts: Cash, Notes Receivable, Discount. (5)

(*b*) Describe a business transaction the journal entry for which would require the use of the following accounts: William Grand, Merchandise, Notes Payable. (5)

FINAL REVIEW QUESTIONS

1 Upon taking charge of a set of double entry books there is one very important thing which you should do before making any entries in the books. What is it? How would you do it? What would you do in case you discovered an error? How would you correct the error?

2 There are seven other important things which you should also do as soon as possible. What are they? What would you do in case you discovered any errors? How would you correct the errors?

3 Assuming that you are acting as cashier and bookkeeper, what would you do first when currency is received? What, when checks or any other negotiable papers are received? What would you do first when you paid out cash in the form of currency?

4 Suppose you were keeping a set of books by single entry and you were instructed to change the system to double entry, how would you make the change?

5 Suppose after you had opened a set of double entry books you discovered, or the proprietor reported to you, that a liability item had been overlooked in opening the books, how would you get this item on the books?

6 Suppose you were keeping a set of single entry books and your cash did not prove at the end of the day, and you were unable to find the error, how would you adjust the error, assuming that your cash was "over"?

7 Assume that you are keeping books by double entry and your cash was "short." What adjustment entry would you make?

8 Assume that you are keeping a set of double entry books. A check is received from one of the customers of your house, in full payment of the balance of his account, and a few days later the check is returned by the bank to your house, stamped "Protested." What entry would you make for the protested check, and in what book?

9 R. T. Jones, one of the customers of your house, makes a claim, amounting to $50.25, for shortage of a bill of goods shipped to him recently. On investigation, the claim was found to be justified, and it has been allowed. What entry would you make for the allowance of this claim, and in what book?

10 Suppose the claim in No. 9 was for goods lost in transit, would your house be likely to allow the claim? Why?

11 If, after taking charge of a set of double entry books in a wholesale house, the set consisting of a journal, a two-column cash book, and a ledger, could you suggest a better system — one that would save time and labor? If so, what would you do?

12 Suppose you could suggest a better system of bookkeeping than the one described in No. 11, and you were permitted to carry out your suggestion, what changes would you make in the books? State how these changes would effect a saving of time and labor.

13 The cash book, whether in simple form or in special-column form, contains a complete record, when it is balanced, of the receipts and disbursements, as well as of the cash on hand and in the bank. Why then do so many bookkeepers keep a Cash account in the ledger? If you were the proprietor of a business, would you want a Cash account kept in the ledger?

14 If you were a bookkeeper, would you regard it permissible to discuss the affairs of your employer with your friends and acquaintances? Would you regard it permissible to tell other employees of the house the amount of the monthly or yearly sales, or the amount of cash in bank and on hand, or to give them any other important information regarding the business?

15 Assume that you are keeping books for Jones & Brown, who conduct a wholesale business. You are satisfied with your position; your employers have confidence in you; and you have the prospect of financial advancement. Suppose you were offered a similar position by a competing house, at a higher salary, what matters should you take into consideration before deciding to accept or decline the offer made by the other house?

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